

2

NAVAL POSTGRADUATE SCHOOL

Monterey, California

ADA 024934



THESIS

PPBS IN DEVELOPING COUNTRIES:
THE PHILIPPINES CASE

by

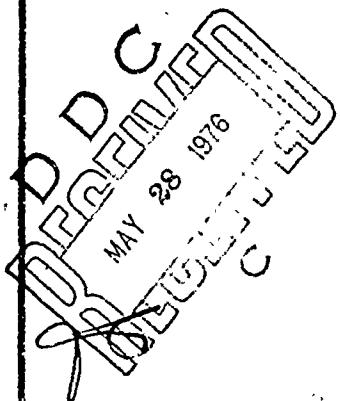
Plaridel Comentan Garcia

December 1975

Thesis Advisors:

William T. Haga
John E. Dawson

Approved for public release; distribution unlimited.



UNCLASSIFIED

SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

REPORT DOCUMENTATION PAGE		READ INSTRUCTIONS BEFORE COMPLETING FORM
1. REPORT NUMBER	2. GOVT ACCESSION NO.	3. RECIPIENT'S CATALOG NUMBER
4. TITLE (and Subtitle) ⑥ PPBS in Developing Countries: The Philippines Case		5. TYPE OF REPORT & PERIOD COVERED ⑦ Master's Thesis, December 1975
7. AUTHOR(s) ⑦ Plaridel Comentan Garcia		6. PERFORMING ORG. REPORT NUMBER
9. PERFORMING ORGANIZATION NAME AND ADDRESS Naval Postgraduate School Monterey, California 93940		10. PROGRAM ELEMENT, PROJECT, TASK AREA & WORK UNIT NUMBERS
11. CONTROLLING OFFICE NAME AND ADDRESS Naval Postgraduate School Monterey, California 93940		12. REPORT DATE ⑪ December 1975 -13- NUMBER OF PAGES ⑫ 102p
14. MONITORING AGENCY NAME & ADDRESS (if different from Controlling Office) Naval Postgraduate School Monterey, California 93940		15. SECURITY CLASS. (if infeasible) Unclassified
16. DISTRIBUTION STATEMENT (of this Report) Approved for public release; distribution unlimited.		
17. DISTRIBUTION STATEMENT (of the abstract entered in Block 20, if different from Report)		
18. SUPPLEMENTARY NOTES		
19. KEY WORDS (Continue on reverse side if necessary and identify by block number)		
20. ABSTRACT (Continue on reverse side if necessary and identify by block number) PPBS is analyzed as to whether it can improve planning and budgeting as well as general management in the R.P. government. PPBS fundamentals, evolution, and experiences with emphasis on areas where difficulties of understanding and compliance were encountered are discussed and related to the R.P. conditions. Important uses of PPBS for development planning and budgeting as well as to complement on-going administrative reforms are → <i>Not b</i> <i>Not m</i>		

UNCLASSIFIED

SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

presented. The structural and information aspects of PPBS are suggested as being implemented informally in R.P. as a result of on-going administrative reforms which include reorganization and preparation for shifting to a parliamentary form of government, a form where PPBS is found to be more suitable. A slow and feasibility testing approach to implementing PPBS in developing countries is recommended.

133	140-8000	<input checked="" type="checkbox"/>
134	140-8001	<input type="checkbox"/>
135	140-8002	<input type="checkbox"/>
140-8003		

DD Form 1473
S/N 1 Jan 73 0102-014-6601

UNCLASSIFIED

SECURITY CLASSIFICATION OF THIS PAGE (When Data Entered)

PPBS in Developing Countries:
The Philippines Case

by

Plaridel Comentan Garcia
Commander, Philippines Navy
B.S., Philippines Military Academy, 1959

Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

NAVAL POSTGRADUATE SCHOOL
December 1975

Author

Plaridel Garcia

Approved by:

William J. H. [Signature]
Thesis Co-Advisor

John S. Dawson
Thesis Co-Advisor

David A. Schindl
Chairman, Department of Operations
Research and Administrative Sciences

Jack R. Bosting
Academic Dean

ABSTRACT

PPBS is analyzed as to whether it can improve planning and budgeting as well as general management in the R.P. government. PPBS fundamentals, evolution, and experiences with emphasis on areas where difficulties of understanding and compliance were encountered are discussed and related to the R.P. conditions. Important uses of PPBS for development planning and budgeting as well as to complement on-going administrative reforms are presented. The structural and information aspects of PPBS are suggested as being implemented informally in R.P. as a result of on-going administrative reforms which include reorganization and preparation for shifting to a parliamentary form of government, a form where PPBS is found to be more suitable. A slow and feasibility testing approach to implementing PPBS in developing countries is recommended.

TABLE OF CONTENTS

I.	INTRODUCTION-----	7
II.	FUNDAMENTALS OF PPBS-----	13
	A. STRUCTURAL ASPECTS-----	13
	B. INFORMATION ASPECTS-----	19
	C. ANALYTICAL ASPECTS-----	23
	1. Analytical Techniques-----	25
	2. Analytical Documents-----	30
	D. PPBS CYCLE-----	31
III.	BUDGET REFORMS BEFORE PPBS-----	33
	A. THE BUDGET AND ACCOUNTING ACT OF 1921-----	35
	B. THE BUDGET AND ACCOUNTING PROCEDURES ACT OF 1950-----	38
IV.	PPBS EXPERIENCES-----	46
	A. IMPLEMENTING STRATEGY-----	49
	1. Level of Government Involved-----	50
	2. Scope of Implementation-----	53
	3. Speed of Reform-----	55
	4. Timing of Reform-----	58
	B. RESULTS OF IMPLEMENTATION-----	59
	C. PPBS EXPERIENCES IN OTHER COUNTRIES-----	70
	1. Canada-----	71
	2. United Kingdom-----	74
	3. Other Smaller Countries-----	76
V.	PPBS USES IN R.P.-----	78
	A. PPBS AND REORGANIZATION-----	80

B. PPBS AND FISCAL CONTROL-----	82
C. PPBS AND DEVELOPMENT BUDGET-----	85
D. AN IMPLEMENTING STRATEGY-----	88
 BIBLIOGRAPHY-----	97
INITIAL DISTRIBUTION LIST-----	102

I. INTRODUCTION

The Republic of the Philippines (RP) has a rolling four-year development plan. The government supports this plan in five functional areas: economic development, social development, national defense, debt service, and general administration.¹

The government has an annual budget that is 30 percent of Gross National Product and is increasing. In contrast to the organization of the development plan, the budget is mainly in terms of object classes of expenditures: personal services, supplies and material, equipment, and capital outlays. These expenditures are aggregated by government bureaus and departments. In 1957, there were attempts to group expenditures by activities that cut across bureau and department lines. These efforts have not been successful.² Accounting reports are classified by expense classes of expenditures and sources of funds, such as general, special, fiduciary, and bond funds.

In this situation, planning cannot be effectively linked to budgeting. They are related to each other in terms of the

¹Four-Year Development Plan, FY 1974-77, Republic of the Philippines, Condensed Report, Bureau of Printing, Manila, 1973.

²The account contained in United Nations Manual for Programme and Performance Budget, 1965, (ST/TAO/Ser.C/75) is more favorable. This will be explained later.

I. INTRODUCTION

The Republic of the Philippines (RP) has a rolling four-year development plan. The government supports this plan in five functional areas: economic development, social development, national defense, debt service, and general administration.¹

The government has an annual budget that is 30 percent of Gross National Product and is increasing. In contrast to the organization of the development plan, the budget is mainly in terms of object classes of expenditures: personal services, supplies and material, equipment, and capital outlays. These expenditures are aggregated by government bureaus and departments. In 1957, there were attempts to group expenditures by activities that cut across bureau and department lines. These efforts have not been successful.² Accounting reports are classified by expense classes of expenditures and sources of funds, such as general, special, fiduciary, and bond funds.

In this situation, planning cannot be effectively linked to budgeting. They are related to each other in terms of the

¹Four-Year Development Plan, FY 1974-77, Republic of the Philippines, Condensed Report, Bureau of Printing, Manila, 1973.

²The account contained in United Nations Manual for Programme and Performance Budget, 1965, (ST/TAO/Ser.C/75) is more favorable. This will be explained later.

total sum of government fiscal operations and government organizations that somehow fall under each of the five functional areas of the development plan. However, the plans for action during a budget year are the government programs. The broad objectives of plans can only be effectively realized through annual expenditure programs. At the national level, these programs cut across department and agency lines. At the department and agency level it cuts across bureau lines. Unfortunately, resources are not allocated, accounted, and evaluated in terms of programs. Thus, in the formulation of plans, adequate data on program costs and outputs are not available for a systematic consideration of alternatives. As a consequence, responsibility centers are not adequately provided with policy guidances, among other things, for a responsive participation in government programs.

The critical importance of programs, by itself, in the Philippines can be gleaned from a few examples. They are population control, land reform, grains, and infrastructure. The country is now number fifteen in the world in population and is increasing at three per cent per year. The land owned by a small fraction of the population is being redistributed. However, landlords have to be compensated and farmers have to be supported with funds, equipment, and utilities. Overnight land ownership, if it can be done, does not mean overnight increases in production. Self-sufficiency in rice and corn is considered adequate to compensate for the additional foreign exchange needs of the recent succession of oil price increases.

The communication, transportation, and utility distribution networks in RP were destroyed during World War II.

When martial law was declared in late 1972, the first presidential decree reorganized the national government. The first paragraph of the Declaration of Policy, Article I of the Plan, said: "The proposed departmental organization will enable the department to plan and implement programs in its substantive field with greater economy, efficiency, and effectiveness."³

This policy provided for the creation, integration, and strengthening of planning units in all government departments. All departments were required to organize a Planning Service Staff and a Financial and Management Service Staff.⁴ A planning staff consisted of planning, programming, and statistics divisions. A financial staff was an integration of all budgeting, accounting, financial reporting, internal auditing, and management improvement functions.

The martial law administration has, therefore, given priority recognition to the planning, programming, and

³ See Reorganization Plan, Presidential Decree No. 1, Manila, Philippines, Bureau of Printing, September 29, 1972.

⁴ Article III - Planning Service, of Reorganization Plan, directs that "planning services will be staffed by professional and competent planners who can relate departmental plans and programs to the national development plan, and who can make wide but judicious choice of modern planning techniques." Article IV - Financial and Management Service, of same Plan, directs that "comptrollership shall aim at a system of budgeting and financial reporting as well as of gathering meaningful and necessary statistical data for planning, coordination, and control."

budgeting problems. In turn, the advocacy for improved systems and procedures has gained ground with the creation of the administrative set-up. This development was also due to the grouping of offices and bureaus on the basis of major functions. The duplication and overlapping of activities within and among departments were reduced. It enabled the Office of the President to decentralize management of present programs to the departments of primary responsibility. Within departments, the importance of the program approach to allocating resources among competing bureaus and the control of bureau performance in terms of department objectives is beginning to be seen.

For example, in the functional area of National Defense, all related government agencies such as police and coast guard forces were integrated into a new Department of Defense. The next move was to create a so-called uni-budget system which was a consolidation of existing budgets. The Defense Department, however, will still be organized internally according to land, sea, and air elements. The integrated forces, which are programs, will perform defense missions across organizational lines. A current example is the unified command engaged in combatting rebellion in the Southern Philippines. The force is primarily Navy and Marines, and the Navy commits a very large proportion of its resources to this mission. Yet, the Navy has the lowest budget, because resources are allocated by military services and not by programs. To be able to support this activity, the Navy has to sacrifice other important activities. The same thing happened

to the Army in the 1950's when the major military problem was counterinsurgency in Central RP.

The essential problem, therefore, is a lack of a systematic formulation and review of programs that will implement government plans. At the department level, there is no programmed means to carry out department's objectives within the framework of the national objectives. Consequently, government resources are not systematically budgeted, accounted or evaluated in accordance with program costs and outputs. Neither do program costs and outputs effectively constrain national development plans.

In 1965, a new budgeting system installed in the United States federal government claimed to solve problems similar to those now faced by the RP government. It is called the Planning-Programming-Budgeting-System (PPBS). The aims of PPBS are to: provide improved decision-making methods, recognize program costs and outputs in planning and budgeting, and make a systematic analysis of program alternatives.⁵ The difficulties that were encountered in the implementation of this system and the scarce materials that were then available created an impression in many countries that PPBS was far too advanced for them to apply to their plans and budget.⁶ When the U. S. federal government stopped using PPBS at the Bureau

⁵ See David Novick, Current Practice in Program Budgeting (PPBS), Crane, Russack, New York, 1973, pp. 12-13.

⁶ See Itshak Galnoor and B. M. Gross, "The New Systems Budgeting and Developing Nations," International Social Sciences Journal, 21, 1969, p. 31.

of Budget level in 1971, any remaining interest in studying PPBS evaporated in other government circles.

A new interest, however, has been generated in RP under the impetus of the martial law reforms. Specifically, there is now a closer recognition of planning and budgeting problems. In addition, the U. S. has accumulated over ten years of PPBS experience. It was preceded by 50 years of budget reforms, in the same period that the Philippines was a colony of the U. S. The PPBS experiences of at least nine other countries are also available now. These countries have learned from the U. S. model and from one another. They also have employed PPBS within the parliamentary form. It is toward this form that RP is moving and for which it is training its civil servants.

This paper examines whether PPBS can improve Philippines government planning, programming, and budgeting as well as its general management functions.

II. FUNDAMENTALS OF PPBS

PPBS is essentially a system for systematically formulating and reviewing programs that implement plans and allocate resources.⁷ It focuses on outputs or objectives of programs, determining the best alternatives to attain a given output. Toward these ends, PPBS uses program budgeting and program analysis, two techniques that are mutually supportive. They are, in turn, supported by an information system. PPBS has three areas of consideration: structural, information and analytical.⁸

A. STRUCTURAL ASPECTS

The first step in PPBS is to identify and examine objectives. These objectives could emanate from a broad national purpose such as attaining the individual and social well-being of Filipinos. Towards such a goal, there are intermediate objectives such as social development and economic development. Under social development are more concrete objectives in areas such as health, education, and welfare. Under

⁷ See E. S. Quade and W. I. Boucher, Systems Analysis and Policy Planning, Elsivier, New York, 1974, pp. 6-7. PPBS was defined as "a tool for the formulation and continuous review of programs."

⁸ The emphasis here is on PPBS area where difficulties in understanding and compliance have been experienced. It is also primarily addressed to Philippine readers.

welfare, for example, there are specific objectives dealing with farmers, veterans, and aged. What results is a hierarchy of objectives.

A hierarchy of objectives is the criterion for the program structure. A program, in the PPBS sense, is an integrated activity - a combination of labor, material, and capital whose output is related to an objective.⁹ Accordingly, the activities are assembled by programs, sub-programs, and program elements at respective levels of aggregation.

The building of the program structure does not have to start from top to bottom. It may be more practical to start from on-going programs which can be worked either upwards or downwards. Then the balance of activities may be aggregated upwards resulting in new identified programs.

At this point in program structuring, a re-thinking of existing programs and activities will occur. For example, the family planning program has outputs relating to reducing poverty and decreasing infant mortality. It reduces poverty by decreasing family size. It reduces infant mortality by decreasing the number of children born to older women and women. In turn, these objectives will be related to broader functional objectives. As a result, the family planning program may be better appreciated.

After a program structure has been matched-out to the hierarchy of objectives, the outputs of the program categories

⁹ See David Novick, "Which Program Do We Mean in Program Budgeting?", The Rand Corporation, P-530, May 12, 1954. It emphasized that the program is also the primary unit for management and planning at the policy level.

are analyzed in terms of their respective objectives. This is done for more specificity if not quantification. For example, a highway construction program has operational outputs of kilometers of asphalt laid. However, the real output of this program may be reduced transportation costs. In more developed countries it could be in terms of safer and less-congested travel. But outputs of this nature are not easily measurable at all levels of the program hierarchy. This difficulty is illustrated in Table 1.

TABLE 1 - THE MEANS TO ENDS CHAIN

<u>Program Category</u>	<u>Inputs</u>	<u>Operational Outputs</u>	<u>Program Outputs</u>	<u>Program Effect</u>	<u>Well-being</u>
Mail Delivery		Timely Deliveries	Reduced Communications Costs		Increased earnings and improved environment
Vocational Training		Courses for Students	Place-ments		Increased Income
Maritime Patrol		Patrol Hours	Deter-rence		Increased Security

In this illustration, the items under Program Category are at most sub-programs of a larger program. For example, in the group where mail delivery is listed is telegram delivery which is also contributing to communications costs. Likewise, maritime patrol may consist of an air and sea element. When the operational outputs of activities or program elements are mixed into program outputs of the next larger grouping, it could be a combination of bananas and coconuts.

Thus, analytical approaches have to be developed to be able to express the mixture of lower level outputs as the outputs and then effectiveness of the next larger aggregate.

In recognition of this difficulty, the program outputs may only be quantified at the level of the program elements.¹⁰ In this manner, the proposed expenditure data can still be related to performance. A program element, therefore, should ideally cover agency activities related directly to the production or provision of a discrete output or groups of related outputs that can be combined.¹¹ If possible, higher program outputs may also be presented in unambiguous terms.

There are many government activities where the outputs are identifiable, measurable, and significant. Examples are tons of garbage, miles of roads constructed, hectares of land re-forested, gallons of water provided, and hectares of rice paddies irrigated. More difficult problems are presented by intangible services, such as education and health; security services, such as deterrence and law and order; non-routine activities, such as staff services, data processing, and research. In these cases, indirect measures such as number of students and courses, number of patients, number of battalions,

¹⁰ See David Ott and A. Ott, Federal Budget Policy, Washington, D. C.: The Brookings Institution, 1969, p. 25.

¹¹ See Planning-Programming-Budgeting, Committee on Government Operations, United States Senate, US GPO, 1968, p. 3. It states that program elements should produce clearly definable outputs, which are quantified wherever possible; and wherever feasible, the output should be an end-product and not an intermediate product that supports another program element.

service duration, or intermediate activity measures may be used.¹² Except they are really inputs disguised as outputs.

After the possible measures of outputs are established, the desired output levels are determined. Normally, there are existing political decisions on the level of accomplishment desirable. At any rate, these levels of outputs and the alternatives to attain them are major considerations of the program analysis that will be discussed later. Nevertheless, PPBS does not start from nothing. There are statistical indicators accumulated in the existing budgeting, accounting, and information systems. The process of program structuring draws from data that may not have seemed important in the past.

For example, in determining the desired level of prevention of traffic accidents, there are recorded data of yearly mishaps. It will be ideal to aim at zero accidents. Not everything, however, can be done for one objective specially within a certain time frame. There are political and technological considerations. Above all, there is the constraint of resources in a situation of competing objectives.

At the early stages of PPBS implementation, therefore, some of the levels of outputs may have to be determined simultaneously with program costs. The program structure costed for a fiscal year is the program budget. Some of the program categories' costs and outputs may be crosswalked from the

¹²See Galnoor, op. cit., p. 35.

historical accounting data or the fiscal ceilings of the current year. When all the costs and outputs of program elements are available, the costs are aggregated into program costs. The program outputs or effects are specified but in most cases unquantified. A starting point is thus established for the analysis of program alternatives that will be discussed later. Systematic analysis has at this stage, at least, program costs and the proxies of sub-program outputs or program element outputs available.

The program budget is thus established. At this stage, program effectiveness is not yet presented. Not all of the items included in the program budget are economic costs and all economic costs are not included in the program budget.¹³ It only presents a list of proposed expenditures related to the measured outputs of the program elements.

These financing requirements are projected several years into the future, using the same program structure. This projection may be called the Multi-year Program Budget (MPB), or what was called Program and Financial Plan (PFP).¹⁴ A PFP for five years is not to be confused with the budget proposal for five years. It is not a projection of future activities in the sense that decisions may be made to reduce, enlarge, or eliminate some program alternatives. The PFP projects the

¹³ See Werner Hirsch, "Toward Federal Program Budgeting," Public Administration Review, December 1966, p. 261.

¹⁴ See Attachment B (PFP Guidance) to Bulletin 68-9, Executive Office of the President, Bureau of the Budget, (US) April 12, 1968.

future implications of current budgetary decisions. It is not a prediction of future decisions.

This extended time horizon is important in investment decisions where the life-cycle costs of the equipment or asset must be considered. It also reminds the resource mobilizer and allocator that there are recurrent costs. These costs may be covered by existing legislation outside of the annual legislative process on the government budget.

To summarize, the structural aspects of PPBS consists of the hierarchy of objectives, program structure, program budget, and the multi-year program budget.

B. INFORMATION ASPECTS

Information systems that may exist in an organization are the traditional budget; the accounting system that supports that budget; the financial reporting system; non-monetary statistical reports in the areas of personnel, material, and capital assets; and other management information systems. These systems support the requirements of planning and control.

PPBS puts an additional demand on all of the foregoing systems. The program budget needs support for keeping track of expenditures and progress of programs. The analytical process needs data and information to develop indices that will permit estimates of costs and benefits of alternative courses of action.¹⁵

¹⁵In many cases the development of program budgeting has been misunderstood as synonymous to the installation of a new computerized management information system. See David Novick,

If the program budget does not replace the traditional budget, the program structure will be converted into the coding of the existing accounting, statistical, and reporting systems. If the program budget becomes the basis for legislative authorization and budget execution, then a program classification is added to the structure of accounts.¹⁶ It does not render obsolete the existing expenditure, activity, and organization classifications. In a sense, the program classification is an aggregation of the activity classifications. Likewise, the organization classification is an aggregation of relevant program elements.

While much of the information of PPBS must come from accounting records, there are formidable obstacles that must be overcome. In the first place, accounting systems cannot be developed until breakdowns of information to be furnished to users are relatively firm. It may be too much to expect also that program structures will spring into being without a considerable period of experimentation and change. Secondly, even when program categories are firmly set, it will take time to redesign accounting systems, particularly automated ones, so that they can accommodate the demands of PPBS.

Present accounting systems are geared to current cost concepts which are oriented toward obligations, organizational

¹⁵ Current Practice in Program Budgeting (PPBS), CR New York, 1973, p. 15.

¹⁶ PPBS may be a tool for legislative consideration of the annual budget. In some cases, PPBS is only used at the executive's level, with the Congress acting on the same traditional budget.

and appropriation breakdowns that fit traditional budget patterns. These breakdowns will not be discarded by PPBS because financial controls and accounting information will continue to be required by organizations and object expenditures.¹⁷ At the same time, the PPBS demands will be on cost accounting for cost-benefit analysis.

Ultimately, it will not be enough for an accounting set-up to be able to collect spending data by program elements and responsibility centers. It must also establish a close link between the two.¹⁸ If a responsibility center works under more than one program element, there will be a separate set of accounts for each program element at each responsibility center. The sum of the expenses for a given program element at all the responsibility centers concerned is the total expense for the program element. This sum is needed by program analysts. The sum of the expenses for all the program elements participated upon by a given responsibility center gives the total for that responsibility center. This sum is needed by the operating manager and the command.

If there is no close correspondence between program elements and responsibility centers, proliferation of the account

¹⁷"I now feel that the advantages of the existing budget structure far outweigh the disadvantages which are principally mechanical, namely the need to translate program categories into budget categories and vice versa." See Charles Hitch, Decision-Making for Defense, University of California Press, 1965, p. 30.

¹⁸See Robert Anthony, "Closing the Loop Between Planning and Performance," Public Administration Review, May/June 1971, p. 394.

sets may result. An extreme and commonly-cited example is when telephone communication is identified as a program element. In this case, there will be a telephone account for every responsibility center in the organization. The paperwork and computing time may be tolerable, but the diffusion of responsibility for a given program element, especially if no one manager has a material concern, makes management control very difficult.

Thus, it may be necessary to re-think the program structure, discussed in the structural aspects, when the accounting system is being redesigned to serve PPBS. Match-outs of program elements with organizational units should be maximized. For example, if a program element is spread among several organizations across the country, the review and evaluation of the program to include collection of data will be difficult. The last resort is reorganization. It will certainly be an advantage, if during the design of PPBS, a reorganization is going on.

Finally, a specific information system installed in the first application of PPBS at the United States Department of Defense (US DOD) is the Program Change Control System (PCCS). As will be discussed later, in PPBS application, the original continuous review of programs was discontinued as far back as 1961 in favor of an annual review.¹⁹

¹⁹ See "Interview with US DOD Comptroller," Armed Forces Comptroller, June 1964, p. 3.

C. ANALYTICAL ASPECTS

The acceptance of PPBS has been impaired by its close association with modern decisional technologies for program analysis. Program analysis means the analysis of alternative means of achieving program objectives, which could be the least-cost combination of program elements to achieve a given output, or the maximum benefit given a budget constraint.

Actually, there are systematic analyses that precede program analyses. First, there are the existing analyses in the planning and budgeting that PPBS aims to integrate or link. For example, the Philippine Department of National Defense has a Strategic Objectives Plan.²⁰ From this plan may be derived the hierarchy of objectives that will serve as the criterion for the Defense program structure. Strategic analysis may also have established important objective levels like number of battalions or aircraft for certain situations and contingencies. On the budgeting side, it has activity classifications within organizational units, each of which has a specified task and a unit of measure. A program element is normally composed of these activities.

Secondly, there are the analyses involved in the structural aspects of PPBS. They are required in the matching-out of programs with their respective objectives in the hierarchy; in the establishment of initial objective levels for which program costs will be computed to formulate a program budget

²⁰Civilian departments do not normally have an equivalent process. Their planning may be the development plan developed at the Office of the President's level.

and a multi-year program; and in the possible re-thinking of the program structure when the information system is being redesigned to accommodate program budgeting.

Thirdly, if inter-program comparisons are made in the level of the department or interdepartment, then the analysis on the component program elements becomes component studies of the larger program. As will be explained later, as the area of analysis becomes more complex and the qualitative factors become more dominant, the analytical tool becomes more complicated. The less complicated tools become foundations for the more sophisticated ones.

The analytical techniques for program analysis that will be briefly described in this section will be familiar to those who have background in engineering, economics, and general management. How these techniques fit in PPBS is the main concern here, since how they are done is better covered in more authoritative materials.²¹ The list includes but is not limited to systems analysis, cost-effectiveness analysis, cost-benefit-analysis, capital budgeting, linear programming, ratio analysis, and down to Gantt chart techniques. In PPBS, they are proposed to be routinized as tools of decision-making resulting to annual budgetary choices or future budgetary decisions.

²¹ For example, Charles Hitch and Roland McKean, The Economics of Defense in the Nuclear Age (Cambridge: Harvard University Press, 1960), pp. 109-118 and pp. 182-187; and Arthur Smithies, Government Decision-Making and the Theory of Choice (Santa Monica: The Rand Corporation, 1964), P-2960.

It may also be used outside of PPBs by the same analytical staff. For example, the government-sponsored Ali-Frazier boxing match in Manila has been subjected to considerable economic analysis. But boxing, after the suspension of Congress, is not a recurrent budget activity. With the directed staffing of the planning staffs of the reorganized departments with competent personnel, these techniques may be employed on selected programs even before a comprehensive program structure is established. In so doing, getting bogged down in identifying goals, sub-goals, activities and so forth, and their complicated relationships, might be avoided. However, unless activities at all levels can be interrelated, if not quantified, in some kind of goal structure, the significance of many decisions and actions may be indeterminable.

1. Analytical Techniques

In the total PPBS operations, there are analytical problems ranging from progress reporting and control of activities and programs to major program allocation decisions.

Progress reporting and control is part of management information systems which keep track of programs where the decisions have already been made. It detects impending difficulties as the program is being implemented and makes remedial actions possible through a feedback mechanism. In so doing, it provides data for subsequent program analysis.

The techniques used are financial reporting and management accounting methods, especially cost accounting, critical path methods now in use at the Infrastructure

Operations Center in Manila and the Cavite Naval Shipyard, and also Gantt chart techniques for project planning and control.

Not only are these techniques keeping track of programs crossing organizational lines but they are also monitoring responsibility centers. The program framework furnishes an outside dimension to the efficiency measures for management control. Thus, the efficiency measure is not seen as a simple ratio for a narrow task but in the larger program perspective.

Another group of analytical techniques are those associated with operations analysis and management science. There are many operations in government where such techniques are applicable. Examples are: lease or buy computers, routing Navy cargo ships to collect rice from southern ports for shipment to Manila, routing postal service vehicles to collect mail from deposit boxes, and how many shifts to employ in the shipyard to optimize patrol capability and maintenance costs. These techniques may be used to evaluate programs or to determine the most efficient alternative in a situation where what is efficient is clear. The known mathematical methods are linear programming and queuing models. The latter are now being applied in the Philippines Post Office and are known to apply in airports, service facilities and maintenance depots. Linear programming is also applicable to transporting grains to milling centers and warehouses.

The next category of analytical techniques has to do with the design and development of weapons system. This is the

original source of the term "systems analysis."²² It involves the planning and design of new weapons systems to do what has never been done before or to perform existing operations better. Sometimes this procedure is called systems design or systems engineering.

In some cases, it may be merely an analytical appreciation of an existing analysis behind a foreign weapons system for acquisition. In other cases, it will involve determining alternatives out of indigenous human and material resources. A missile gunboat acquisition under this analysis will consider not only comparable elements like other ships, air force planes, or army artillery pieces, but also supporting elements such as repair facilities, training facilities, and communication facilities. A gunboat will also be analyzed as to its subsystems. Most of these related elements are furnished to the analyst by the program structure.

It is one thing, however, to be able to appreciate the tactical design and timeliness of delivery of a weapons system and another to consider the deployment of the system as an instrument of national policy. In the former case, there are severe constraints not only in funds but also in foreign exchange limits. In the latter case, the factor of conflict comes in, which is the interaction with the enemy. It is not one's alternatives and costs that are the main problem. As

²²E. S. Quade and W. I. Boucher, Systems Analysis and Policy Planning, Elsevier, New York, 1974, p. 9.

will be shown later from US DOD experience, the analysis of procurement and supply of hard weapons has been emphasized over the less quantifiable effectiveness aspects of these weapons.

While analysis of policy alternatives in one area like defense is already complicated, PPBS is still involved in a much wider area of analysis. There are major allocative decisions such as whether more resources should be employed in national defense rather than in reforestation or irrigation. Ideally, the marginal return for each of the areas of a given budget should be equal. The quantitative analytical tools now available are not considered able to deal directly with analysis of different programs. Decision problems become more difficult when it involves more than efficient allocation of resources among alternative means for a known task. In major program decisions the level of objectives must first be determined resulting to a problem of - not only how to do it but what ought to be done. Studies to help with these problems are called systems analysis.²³

Systems analysis is also perceived interchangably with cost-effectiveness analysis. The latter is better remembered as a stage of the former. Cost-effectiveness compares alternative courses of action in terms of their costs and effectiveness in attaining a specific objective. Usually the criterion is to minimize costs subject to some fixed performance

²³See E. S. Quade, "Systems Analysis Techniques for Planning-Programming-Budgeting," P-3322 (Santa Monica, Ca.: The Rand Corporation, March 1966).

standard, or conversely to maximize performance subject to a budget constraint. Thus, the term cost-effectiveness analysis.

However, there are many facets of a problem aside from alternative choice. There is the establishment of acceptable objectives, the determination of a satisfactory way of setting a standard of performance, the design of better alternatives, and qualitative factors.

Therefore, the development of an analytical capability for problem areas of this complexity is at least a long-range matter. It is this very difficulty which confronts more advanced nations, that makes systems analysis expertise the least worry of less advanced nations. In the Philippines, the context of the problem is much narrower and a wide range of alternatives is not available. In addition to severe constraints, mentioned earlier, there are the lack of new technology and preponderance of basic problems such as food, clothing, and shelter. The alternatives, therefore, are subjectively pruned by circumstances. But with a disciplined and orderly analytical process they are nevertheless objectively compared. In a sense, systems analysis is any orderly analytic study designed to help decision-making among possible alternatives for a preferred course of action. When systems analysis is further applied to small component systems as is the case in PPBS, the intuition and judgment of the decision maker is augmented for bigger problems that cannot be similarly analyzed.

2. Analytical Documents

In PPBS, the documents that result from program analysis are called program memoranda (PM) and special analytic studies (SAS). A PM emanates from program issues determined by higher authority or initiated by the department. They are questions requiring decisions in the current budget cycle and having critical implications on percent or future costs as well as the consequences of a program choice.²⁴ A PM presents a comparison of the cost and effectiveness of alternative means of resolving problem program issues in relation to their objectives. As a minimum, it should contain the agency head's decision and the rationale for decisions made. The PM's do not normally cover the whole structure of a program, but deal rather with important issues.²⁵

The SAS provides the analytical groundwork for the PM's on which choices of alternatives of programs and program elements are based. How elaborate an SAS is depends on analytical capability, time frame of decision-making, availability of estimating factors, and the demands of higher authority.

²⁴ See David Seidman, "PPBS in HEW: Some Management Issues," Journal of the Institute of American Planners, 36, No. 3 (May 1970), p. 169. See also US Bureau of the Budget Bulletin No. 68-2 to the Heads of Executive Departments and Establishments: Planning-Programming-Budgeting (PPB), July 18, 1967.

²⁵ In 1966, the agencies attempted to comply with submission of PM's without limitation as to length and number resulting in a flood of PM's making PPBS identical "with the production of useless reports for people who would never read them." See Fremont Lyden and Ernest Miller, Planning Programming Budgeting, Chicago: Rand McNally, 1972, p. 2.

D. PPBS CYCLE

The traditional budget cycle in the Philippines is similar to that of the United States except that in the period of martial law the legislature is suspended. The cycle consists of preparation phase, legislative authorization now assumed by a Presidential Development Budget Committee (PDBC), execution phase, and auditing and reporting phase. PPBS impacts on the preparation phase extending it such that instead of the six months required for the departments to prepare the budget for submission to the legislature in January, this phase may start at least six months earlier.

As an illustration, assume that this is January 1976. By this time, a program structure has been designed; the budget being passed upon by the PDBC for Fiscal Year 1977 is a program budget; and the multi-year program covering FYs 1976-1981 is in force.

During this period the departments and agencies with the focus on FY 78 will be in consultation with the Budget Commission and PDBC for identification of program issues regarding the direction, scope, and size of agency programs. Issues left over from FY 77, as well as new issues, will be raised. Consideration of these issues will lead to discussion of analytic studies that will be required. These studies may be interim in nature to affect target FY 78 or laid to cover two or three-year periods.

From April to September of 1976, the agencies initiate and complete analytic studies needed to reach agency head decisions on program issues identified by higher authority;

conduct intra-agency review on the execution of budget in FY 76 for which analytical studies may or may not have been made, and prepare the agency PM's and multi-year program. In July, the multi-year program will be updated to remove FY 76 and add FY 82.

In October of 1976, the Budget Commission commences review of submitted PM's, SAS's, multi-year programs, and FY 78 proposed program budget. Since the PDBC is also a presidential body, this Budget Commission review may be extended to the period from January to March of 1977. At the same time, the program issues for FY 79 will be considered while the budget proposals for FY 78 are being reviewed.

From April to June of 1977, the PDBC acts on the FY 78 budget as submitted by the Budget Commission, and the President issues a presidential decree for the authorization of the FY 78 budget.

III. BUDGET REFORMS BEFORE PPBS

The evolution of PPBS consists of three stages of budget reforms: traditional, performance, and PPB.²⁶ Each stage had a major functional orientation, namely, fiscal control, management control, and planning, respectively. Fiscal control deals with the procedures and limits on government agencies regarding expenditure ceilings, propriety in expenditures, object classes and sources of funds. Management control deals with the budgeting of approved goals into specific projects and activities that are the most efficient for the accomplishment of prescribed tasks. Planning, as a major orientation of PPBS, was discussed earlier.²⁷

All budgeting systems, even in developing countries, have these three functions. Major reforms alter the balance of these functions resulting in a change in major orientation. The emphases on previous orientations do not have to be decreased. Organizations have a way of either saturating the personnel performing the three functions or creating additional staffs.

²⁶ See Allen Schick, "The Road to PPB: The Stages of Budget Reform," Politics, Programs and Budgets (Edited by James Davis), Englewood Cliffs, N.J.: Prentice Hall, 1969, p. 210. This framework, developed by Schick, is the most widely used in PPBS literature.

²⁷ For the distinction between planning, management control, and operational control, see Robert Anthony, Planning and Control Systems: A Framework for Analysis, Boston, 1965, pp. 16-18.

Roughly corresponding to the three stages of budget reforms was the sequential development of budgetary concepts: inputs, outputs, effects and program alternatives, in that order. The traditional stage was input-oriented for fiscal control; the performance stage related outputs to inputs for management control; and PPB stage expanded the concept of outputs to less quantifiable effects in order to make systematic choice of program alternatives for planning. These stages and concepts, however, did not follow each other in a neat sequence. The latter stages occurred before the objectives of the preceding stages were fully realized.²⁸

The framework for analysis that will be used here are the major legislative actions that embodied the budget reforms: the Budgeting and Accounting Act of 1921 and the Budget and Accounting Procedures Act of 1950. The stages of budget reforms and the corresponding sequential development of concepts are covered in what happened before and after these budgeting landmarks. These Acts were also the bases for the Philippines Commonwealth Budget Act of 1925 and the R.P. Revised Budget Act of 1954. An examination of these public laws will not only bring insight on the relevance of prior budget reforms to the concepts and application of PPBS but serve as a reminder of the origins of the RP budgeting system. As such, it is open to reexamination.

²⁸ In a sense, what is new in budgeting is the more complex areas of analysis, since even the traditional stage deals in alternative choice of expenditure levels. See Bertram Gross, "The New Systems Budgeting," Public Administration Review, March/April 1969, p. 123.

A. THE U.S. BUDGET AND ACCOUNTING ACT OF 1921

The conceptual development of this Act started in 1900 when President Taft appointed a "Commission on Economy and Efficiency" which produced the "Need for a National Budget" report. This was after the Spanish-American War and before World War I, when economic scarcity in relation to new American purposes were beginning to be felt. The report proposed formulation by the Executive of estimates of receipts and expenditures for ratification by Congress. It was patterned after the British system, where the Cabinet has the initiative in the budget process.

Taft did not succeed in ushering executive budgeting into what was then an era of the congressional budget. This era was characterized by particularization of inputs by the Congress, a procedure shared by members of the Cabinet.²⁹

When President Wilson took over, he favored some kind of budget reforms, having been active reforms while in the academic community. In 1916, the "Institute for Government Research, which later became the Brookings Institution, came into being. It worked effectively for the establishment of a national executive budget.

In 1920, a Budget and Accounting Act was passed by the U. S. Congress. By this time, a movement for reforms was supported by all political parties. It highlighted the

²⁹ See John E. Dawson, "Origins of the Federal Budget Process," Armed Forces Comptroller, April 1975, pp. 2-7. He illustrated particularization of inputs by an appropriation in 1878 for West Point which detailed textbooks down to twenty dollars.

inefficiencies and waste that could have been used instead for emerging government programs. The budgeting breakthrough, however, did not succeed; President Wilson vetoed it because presidential power was threatened by the General Accounting Office (GAO) to be created by the Act. President Harding signed nearly identical legislation enacted as the Budget and Accounting Act of 1921.³⁰

With political resistance overcome, the executive proceeded, through the Bureau of Budget, to apply the law as envisioned by reformers a decade before. As an indication of the necessary support from the Presidency, Harding asserted that it was nothing less than "... the greatest reformation in government practices since the beginning of the republic."³¹ A new obstacle was the attitude of department heads to deal in terms of their respective spheres, having been used to the former congressional practice of particularized budget estimates. The Budget Director was only able to exercise control for the President by cutting departments to size.³²

The function of fiscal control turned out to be the major orientation. The role of management control and planning lost out. The executive budget cannot easily be synthesized because it was deeply rooted in the particularized budgeting of the prior era.

³⁰ Richard Cronin, "Years of Reform and Development," Armed Forces Comptroller, April 1975, p. 9.

³¹ Richard Cronin, Ibid., p. 9.

³² John Dawson, op. cit., p. 5.

This became the traditional stage of budget reform, where the dominant activity is expenditure control and where the watchdogs symbolized honesty, legality, and economy. The key word was fiscal accountability: the prevention of funds from being stolen, used for unauthorized purposes, or spent at uncontrolled rates. Accordingly, the budgetary techniques required were detailed and comprehensive listings of inputs of expenditures, frequent accounting reports, pre-audits of transactions even by central agencies, and field audits without consideration of the internal control system of the agencies concerned. The expertise developed was rooted in labyrinthine rules and regulations displayed in the numerous technical definitions about authorizations, obligations, expenditures, objects of expenditures, apportionment, disbursements, advance payments, repayments, guarantees, continuing appropriations, trust funds, fiduciary funds, post audits, and pre-audits.³³

Beginning in 1935, however, the traditional emphasis on fiscal control started to crack. Cost-benefit studies surfaced in the debates on water resources development between the Corps of Engineers and the Bureau of Reclamation. President Roosevelt organized a "Committee on Administrative Management" in 1937 to establish, among other things, a merit

³³ In the RP case, it can be shown that the resulting web of red tape can be taken advantage of ingeniously to achieve the opposite effects of control by those who know the ropes. On one hand, it can develop a perception by the line of financial management as distinct from command and leadership. On the other, it can lead to the further narrowing of the functions of finance personnel at the sacrifice of general management.

system in the civil service. Meanwhile the difficulties of the war effort imposed additional challenges on the government as well as led to improved applications of scientific management in the private sector. Scientific management and the merit system influenced the idea of efficiency and not merely economy and honesty, as an important budgeting goal. Thus, by 1940, the executive budget was considered converted from law to fact.³⁴ Its concepts had been introduced 30 years earlier.

The original intent for a more balanced interplay of control, management, and planning functions, however, was not realized. Later, the fiscal control orientation was to be confronted with new problems of comprehensive budgeting of semi-autonomous and government profit-making enterprises, the question of depreciation of capital assets, and the multi-pocket sources of funds due to heavy transfers from within or from without a budgeting entity.

B. THE BUDGETING AND ACCOUNTING PROCEDURES ACT OF 1950

The factors that hastened the substantial realization of the Budget and Accounting Act of 1921, influenced the legislation of the Budget and Accounting Procedures Act of 1950. The impetus of U. S. national spending was pronounced before World War II, with the New Deal broadening perspectives of

³⁴John Dawson, "Origins of the Federal Budget Process," op. cit., p. 5.

government responsibilities and the influence of Keynesian economics on public spending. As long as the government was considered a necessary evil, there was little recognition of the social value of government expenditures. As a consequence, the main function of the budget was to keep spending in check. However, as the work and accomplishment of public agencies came to be regarded as benefits, the task of budgeting correspondingly changed.

With the expansion of government services, the bits and pieces presentation of expenditures became less and less significant while the aggregation of activities performed became more to the Presidency. With the perceived relationship of public spending to the condition of the economy, summarization of the budget by macro-functions, such as national defense, health, and debt service, became necessary. Even for purposes of fiscal control it became costly and difficult for higher government officials to keep track of the myriad object classes of expenditures, without the use of computers.³⁵

During World War II, the magnitude of U. S. government spending increased even more. Prior to and during the war, the practitioners of scientific management had been advocating efficiency and productivity in government. They were also behind the merit system in the civil service that contributed in the upgrading of public service. This improvement, along with new statutes and regulations, decreased the administrative

³⁵ In developing countries, scarcity of manager time is buried in the preoccupation with scarcity of material resources.

abuses that gave rise to an overemphasis on control of the traditional system. This routinized, control-minded approach of the Bureau of Budget was castigated by the Committee on Administrative Management, created by Roosevelt in 1937. This Committee also caused the transfer of the Bureau of the Budget from the Treasury to the Executive Office of the President, which it recommended and was subsequently created by a reorganization plan in 1939. The Budget Bureau staff was increased tenfold, mostly from the ranks of public administration rather than from accounting.³⁶ In 1948, a cooperative effort by the General Accounting Office (GAO), the Treasury, and Bureau of the Budget launched the Joint Accounting Improvement Program (JAIC). Gradually, the cost accountants and university-trained public administrators were recruited into the operating staff of JAIC.

The formal stimulus, however, for the Budget and Accounting Procedures Act of 1950 came from the Commission on Organization of the Executive Branch, popularly known as the First Hoover Commission. The pattern of interaction between budget reforms and reorganizations has continued from the traditional stage. In this second stage of reform, a commission was mandated by the Congress to submit plans for the consolidation of services, activities, and functions of similar nature. It was also directed to define and limit the executive functions,

³⁶ Allen Schick, *op. cit.*, p. 218.

services, and activities. However, its major accomplishment was the concept of a performance budget.³⁷

The First Hoover Commission recommended that "... the whole budgetary concept of the federal government should be refashioned by the adoption of a budget based on functions, activities, and projects: this we designate as a performance budget."³⁸ A performance budget identifies the output of an organization, provides information on its quantity and quality, and then relates output to input. The argument then can be considered very simple now: by focusing on input-output relationships, the same output may be achieved with fewer inputs, or alternatively, the same inputs may generate more outputs. By that time, this concept had long been established in American business organizations, which in practice attempt to know what they: have done, are doing, or want to do, with the inputs they use. The orientation, therefore, is management control, and the key word is efficiency.

The performance budget concept was initially introduced by law in the National Security Amendments Act of 1949. This was the reorganization of DOD, but it carried as Title IV the establishment of a comptroller set-up in the defense department and the adoption of a performance budget.³⁹ In 1950, the

³⁷ In contrast, the R.P. Reorganization Commission of 1972 did not go far enough to changes in budget concepts and systems.

³⁸ Commission on Organization of the Executive Branch of Government, Washington, D. C., 1949, p. 8.

³⁹ "... the military budget system has broken down. The budgetary and appropriations structure of the Army and Navy are antiquated. They represent an accumulation of categories

Congress expanded the DOD application into the Federal government through the Budget and Accounting Procedures Act of 1950.

This law has a Part II, which is sometimes called the Accounting and Auditing Act of 1950. This portion is virtually unnoticed in PPBS literature but has great relevance to budgeting. First, it gave statutory recognition of the basic principle that the primary responsibility for properly accounting for and controlling the administration and use of Federal funds rested with agency management. As such, the law authorized the retention of fiscal documents by fiscal agencies at agency locations rather than require that they be sent to some central GAO location for desk audits. The Hoover Commission pointed out that the detailed checking of expenditures was a duty of management and should be provided for as a part of the system of internal control. They further noted that the outside auditor should give due regard to how good a job was being done by agency management in this respect before deciding on what audit work he would do, since it is an unnecessary expense for them to duplicate such work except in exceptional circumstances.⁴⁰

³⁹ arrived at on an empirical and historical basis. They do not permit comparisons, they impede the administration, and interfere in the efficiency of the Military establishment." See First Hoover Commission Report, op. cit., p. 98.

⁴⁰ In R.P., the resignation of the Auditor General, Budget Commissioner, and Commissioner of Civil Service was accepted last September 21, 1975. However, procedures have yet to be improved to go with shake-up in top personnel. See "Top Government Shake-up in Manila," Monterey Peninsula Herald, September 22, 1975.

Second, the 1950 Act specifically recognized the Joint Accounting Improvement Program, originally an initiative of the Executive Branch. It directed that it be continued, as a specific congressional policy. Later, the program was changed to Joint Financial Management Improvement Program to reflect its expanding concern with all elements of government financial management. It now included the Chairman of the Civil Service Commission and the Administrator of General Services Agency and is manned by a full-time staff. In this program, the GAO is empowered by law to prescribe principles and standards for executive agency accounting systems rather than specific detailed systems for each agency.

Third, it affected the GAO by an unprecedented reduction of personnel from 15,000 in 1946 to 4,000 in 1966, due to changes in methods and procedures. With the shift to site auditing and improved fiscal control by agencies themselves, GAO was also able to apply more emphasis beyond regularity of transactions, legal compliance, and propriety and accuracy of accounts. Now it deals with other matters such as efficiency and economy of operations and effectiveness of results. ⁴¹

The accounting and auditing aspects of the performance budget received a further boost from the Second Hoover Commission of 1955. It led to Public Law (PL) 84-863, which

⁴¹Recent publicized GAO findings were on effects of military sales to Arab countries and efficiency of processing of social welfare claims.

required all agencies to install accrual accounting as soon as practicable and added the dimension of programs to performance budgeting. Accrual accounting, however, which will prove to be a critical item not only in performance but also in program budgeting, is still in the process of implementation. The Joint Financial Management Program projects that it will be up to 1980 before all agency accounting systems are approved.⁴²

The status of the accounting system has contributed considerably to the unfinished business of performance budgeting. The additional demands of PPBS on practically the same staff also affected the performance budget effort. When PPBS was introduced, output identification and measurement and costing in activities not associated with hard goods, were not adequate. Productivity measurements were limited to simple mail distribution, disbursement, and equipment maintenance. The studies sponsored by the Advisory Committee on Management Improvement created by the President in 1952 fell into limbo when the staff was reassigned to the PPBS effort.⁴³

The rationale for the PPBS stage of budget reform, however, is among other things, that outputs of critical programs are too broad for performance budgeting to quantify and

⁴² Ellsworth H. Morse, Jr., "Current Significance of the Accounting and Auditing Act of 1950," The Federal Accountant, September 1975, p. 8.

⁴³ Thomas Morris, W. H. Corbett, and B. L. Usilaner, "Productivity Measures in the Federal Government," Public Administration Review, November/December 1972, p. 753.

and analyze. More often, outputs were confused with the supposed effects or results of specific projects. For example, performance budgeting will treat the quantity and quality of public housing as outputs and relate it to labor and material as inputs, when the presumed effect may be the reduction of juvenile delinquency. The resolution of the unfinished task of performance budgeting therefore - the relation of operational outputs to inputs of resources, where efficiency is the criterion - may yet be the side effect of the application of PPBS. The same pattern was earlier mentioned, when the substantial completion of the traditional stage of budget reform was mainly due to the factors and application of the performance stage of budget reform.

In the next chapter, experience with the third stage of reform, PPBS, will be discussed.

IV. PPBS EXPERIENCES

PPBS requires more complex structures, advanced analytical tools, and complicated information systems. To illustrate further, Table 2 is shown, using a proposed Coast Guard Program in the Philippines Navy, which was substantially patterned after the U. S. Coast Guard.

TABLE 2
COAST GUARD PROGRAM

<u>Traditional Budget</u>	<u>Performance Budget</u>	<u>Program Budget</u>
Personal Services	Vessel Operations	Law Enforcement
Maintenance*	Personal Services	Vessel Operations
Equipment	Maintenance	Personal Services
Capital Outlay	Equipment	Maintenance
	Aviation Operations**	Equipment
	Repair Facilities	Capital Outlay
	General Support	Aviation Opsns**
	Capital Outlay	Repair Facilities
		General Support
		Search and Rescue***
		Aids to Navigation

*Operations and Maintenance is further subdivided into 12 object classes of expenditures for a total of 15 objects under the traditional classification.

**Aviation Operations together with Vessel Operations, Repair Facilities, and General Support are performance projects and are further classified with object classes of expenditures under each project.

***Search and Rescue is a program element of the Coast Guard Program like Law Enforcement and Aids to Navigation. As such, the latter two program elements are also classified with performance projects and object classes of expenditures under each program element.

In a traditional format: the structure consists of four expense classes or 15 object classes of expenditures; the analysis consists of alternative levels of expenditures by organization or ratios on what a person or equipment needs to operate; and the accounting chart consists of 15 accounts. In a performance format: the structure consists of five projects, with at least the first three projects having a unit of performance measure and specified task such as steaming hours, flying hours, and man-days of repair; the analysis consists of relating the operational outputs to inputs during budget formulation and the actual performance to budget performance during budget review, and the accounting chart consists of 57 accounts. Each project consists of 14 object classes plus the capital outlay, which is considered a project as well as an object class of expenditure. In a program format, in a cascading fashion: the structure consists of three program elements, each of which has all the performance budget projects as activities; the analysis pertains to the effects of operational outputs of each activity on the objectives of each program element; and the accounting chart consists of 180 accounts. The three program elements consist of four performance projects each, which has 15 object classes of expenditures, for a total of 180 accounts.⁴⁴

⁴⁴ Actually, this chart is overdrawn, since the size of the Coast Guard Program is not material enough to warrant the breakup of General Support and Administration and Capital Outlays to each of the program elements in the accounting system. The analysts can generate that data from other sources.

PPBS assumed the unfinished business of preceding reforms, the prior accomplishment of which could have been very helpful. An increase in comprehensiveness of budget information, however, does not assure that a change in decisional behavior follows. If information can influence behavior, the reverse is also true.⁴⁵ The actors may use form and data to suit preconceived decisions. In this connection, rationality or at least a mix of what is rational and what is political in budgeting was assumed, conceivably. This assumption was influenced by the increases: in the use of economic analysis in budgeting and fiscal policy; in the use of decisional and informational technologies; and in the convergence of planning and budgeting in government. The latter was mainly due to an ever increasing role of government which was previously considered or disdained as socialistic.⁴⁶

How the reformers perceived the strength and limitations of PPBS and its interaction with its administrative and political environment can be gleaned from a deduced implementing strategy when PPBS was applied at DOD in 1961 and at the Federal Government in 1965. PPBS experiences also reveal how the manner of implementation affected understanding of and

⁴⁵ See James E. Jernberg, "Information Change and Congressional Behaviour: A Caveat for PPB Reformers," in Planning-Programming-Budgeting, ed. by Fremont Lyden and E. Miller, Chicago: Rand McNally College Publishing Co., 1972, pp. 102-115.

⁴⁶ In developing countries, there is also an increasing diversity of government agencies involved in related functions for which reorganization and personnel revamp has been done with or without complementary changes in systems and procedures.

attitudes towards PPBS. The advantage of foreign governments and organizations which adopted PPBS later was the U.S. experience. How that experience was related to foreign environments is useful. U.S. PPBS application at Bureau of Budget level was terminated in 1971 but it continued in several Federal departments and agencies other than DOD and in three states. What will follow is a description and analysis of the implementing strategy and the results of such implementation. Included in the results are present trends of PPBS uses.

A. IMPLEMENTING STRATEGY

An implementing strategy for administrative reform is a function of the reform as understood, reform agencies, and its environment.⁴⁷ In turn, it has sub-variables such as: level of government involved (whether department, office of the President or Premier, and Congress or Parliament), scope of implementation (whether by departments or government-wide), speed of reform (whether results are expected in the short run or long run from the total system or its sub-systems), and timing of reform (whether there are forces, events, or personalities that are working for or against the reform).

⁴⁷ For broad categories of administrative reform variables, see Hahn-Been Lee, "An Application of Innovation Theory to the Strategy of Administrative Reform in Developing Countries," Policy Sciences, 1970, pp. 177-189; and R. E. Peterson and K. K. Seo, "Public Administrative Planning in Developing Countries: A Bayesian Decision Theory Approach," Policy Sciences, 1972, p. 371.

1. Level of Government Involved

PPBS in the U. S. was not a mandate of the Congress, unlike preceding budget reforms. As such, a legislative program submitted for authorization and appropriation was in the older budget format. The appropriation accounts were not restructured and PPBS plans and analyses were for the use of the Executive.

This approach reversed earlier ideas which suggested a program budget for organizational decision-making and submission to the Congress, and an administrative budget for fiscal control and performance evaluations.⁴⁸ The latter, consisting of traditional and performance classifications, was to be submitted to the Congress in broad aggregates. A program budget was considered a more relevant instrument for the policy-making function of the Legislative.

The motivations of the Executive in bypassing the Congress will also be covered in the aspects of speed and timing of reform. For its part, the legislature was known to be particularistic in budget interest and would not trade its fiscal control over government spending for a larger policy role. The closer was a congressional committee to the appropriations process, the less it would be enthusiastic about esoteric analysis, unless it can be fashioned as a popular instrument of legislative control. Thus, PPBS concepts were

⁴⁸ See Arthur Smithies, The Budgetary Process in the United States, New York: McGraw Hill Book Co., Inc., 1955, pp. 192-93.

a subject of interest to advisory committees only such as the Joint Economic Committee.

Actually, the U. S. Congress had a broad mandate to evaluate administrative programs since the Budget and Accounting Act of 1921. This Act created the GAO with an analytic role. Then the Budget and Accounting Procedures Act of 1950 installed performance budgeting, where information on outputs are designed for congressional as well as executive use. A content analysis of Appropriations Committee hearings from 1951-64 by James Jernberg revealed that:⁴⁹ budget information on a particular performance program was only a part of open information flows in which budget information had to compete with other sources and committee members neither uniformly reject nor embrace new information but instead used information that met their preferences and needs.

It turned out that the Congress would tend to rely on GAO and other technical congressional staffs in addition to private sources of information rather than from the President's budget. For PPBS analyses, therefore, they would have to create organizations of their own, complete with computer and systems analysts. The Executive or specifically a department in a hearing may not be willing to reveal the program alternatives that were considered and rejected even if they may be willing to disclose the outcomes of PPBS analyses and plans.

⁴⁹ Jernberg, op. cit., p. 113.

For such is the nature of checks and balances, with which most developing countries have not been successful.

In contrast, a parliamentary set-up bypasses executive-legislative frictions in policy making. For example, Canada is governed by a Cabinet of ministers drawn from the majority party. The policies and programs initiated by the Cabinet are invariably enacted into law. Otherwise, the government falls and elections are called to form a new government. The Finance Ministry worries about revenues and the Treasury Board (TB) worries about expenditures. The latter is a committee of ministers of the Cabinet and served by a secretariat. The bureaucracy serves both the Cabinet and Parliament. A Privy Council Office (PCO) persuades and pressures all departments to present available options for policy consideration and provide staff assistance to Cabinet committees in terms of necessary information and policy choices.

The most important Cabinet committee is the Priorities and Planning Committee (PPC) chaired by the Prime Minister. The PPC sets out expenditures guidelines, a year before the beginning of the fiscal year from information and analysis provided by TB secretariat and PCO. Then the TB works out the allocation process. Major agenda are also inputted to PPC, a coordinating committee, by functional committees such as the Economic Policy Committee and the Social Policy Committee. The level of abstraction generally increases as policy discussions move from functional to coordinating committees. As an indication of a management by exception, Trudeau's Cabinet deals only with three or four items in the first page of the

Cabinet agenda - those items where decisions have not been made in the committees.⁵⁰

2. Scope of Implementation

In early 1965, top officials of the Bureau of Budget urged President Johnson to limit PPBS during the first years to a few selected agencies that, like the armed services, have some forms of program planning. They believed that the conceptual tools needed slow and careful development. The President, however, decided on the inclusion from the very beginning of all departments and most independent agencies.⁵¹

The reasons for this aspect of the strategy of implementation can be attributed to the following: the perception or understanding of PPBS was a function of an evaluation of its prior successes, mainly at DOD. The DOD experience was to be extended to civilian agencies. In 1961, however, the Defense Comptroller also suggested a less comprehensive application of PPBS. Comptroller Hitch believed that a whole year should be spent designing the system and picking out a few well-defined programs for a trial run.

Based on that experience, PPBS could be refined and then extended department-wide. DOD Secretary McNamara not only vetoed that approach but also directed a comprehensive

⁵⁰ See R. V. Segsworth, "PPBS and Policy Analysis: The Canadian Experience," International Review of Administrative Sciences, Vol. 38, 4, 1972, pp. 419-25.

⁵¹ Bertram M. Gross, "The New Systems Budgeting," Public Administration Review, Vol. 29, 2, March/April 1969, p. 117.

review of DOD information systems for purposes of both planning and management control.⁵² PPBS in the U. S. not only had active support from the very top, but aggressive leadership as well. Since the leadership was confronted with a mammoth bureaucracy, an effective way to introduce a major innovation and make it stick was to push it across the board. Furthermore, the "millenium for rationality and efficiency" which PPBS was oversold to achieve fitted into the atmosphere of successes in space, the Great Society programs, and an accompanying major war.⁵³ A simple breakthrough in public administration can hardly be perceived to fail amidst such euphoria. Authoritarian set-ups in developing countries can also be entrapped in a euphoria of initial successes.

The comprehensiveness of the approach can also be explained or rationalized by the very nature of a systems approach to management. Only in the U. S. case, McNamara and Johnson acted the roles of both analyst and the manager. In a systems approach, an analyst's findings could just be a sophisticated re-expression of a manager's decision, and a manager's decision could just be an experimental first or second iteration of a systems analysis.⁵⁴

⁵² See "Interview with DOD Comptroller," The Armed Forces Comptroller, June 1964, pp. 2-5.

⁵³ See W. Ken Fisher, Jr., "PPBS in Proper Perspective," The Federal Accountant, Vol. 21, 2, June 1972, pp. 22-32.

⁵⁴ See C. W. Churchman and A. H. Schainblatt, "PPB: How Can It Be Implemented?," Public Administration Review, March/April 1969, pp. 178-80.

For example, the essential burden of PPBS is that more resources are wasted when the wrong things are done efficiently than can ever be wasted when the right things are done inefficiently.⁵⁵ As such, its pioneers did not care much, initially, about the unfinished business of prior budget reforms. It turned out that since plans are programs for action, how the actions are evaluated and accounted were vital to planning. Noted earlier, were the changing goals in DOD PPBS over time: from a primacy of a program classification to the realization that the old classifications were equally important; from a continuous review of programs to an annual review; and from a systems analysis of all programs to a pragmatic possibility of a systems analysis without a program budget and a program budget without systems analysis or a little of both.

3. Speed of Reform

The bypassing of the Congress and a comprehensive scope of implementation set the pace the Executive wanted. In August 1965, PPBS was officially promulgated in the federal government. A former Secretary of Commerce described the introduction of the system to the Cabinet:

...the Cabinet members were called together without any prior preparation and after a brief summary by Budget Director Schultz, ordered to put it into effect promptly. There was no meaningful discussion of whether

⁵⁵Novick, op. cit., p. 16.

or not it would be applicable throughout the Federal government even if successfully applied in Defense.⁵⁶

The Presidential memorandum was followed by Bureau of Budget Bulletin 66-3, implementing PPBS. In October 1965. Since the first target for a program budget was FY 68, the agencies had only about six months - to recruit and train the necessary staffs, issue implementing procedures, design the program structure, conduct initial alternative analyses, crosswalk the program costs to the appropriation structure for submission to Congress, write program memoranda and special studies - to be able to submit rough budgetary estimates in May 1966.

It may be deduced that the intention was only for the system to take roots rather than speedy results if the President were told of a few developments in the application of PPBS at DOD such as: The objective of a continuous appraisal of programs led to the elimination of budget ceilings. It had the effect of encouraging the armed services to submit virtually every project which conceivably had any merit at all, including many which had been rejected in previous program and budget reviews. The estimates were far in excess of realistic totals, deep cuts had to be made during the budget phase, and deferred programs swelled the multi-year program. This was because many expenditures were delayed rather than cancelled resulting in the Five-Year Program becoming an

⁵⁶ Stanley B. Botner, "Four Years of PPBS: An Appraisal," Public Administration Review, July/August 1970, p. 424.

unrealistic planning base.⁵⁷ Then, in 1965, a new defense comptroller took over at DOD with the principal object of installing the accounting part of PPBS. It turned out that the necessary loop from programming to budgeting to actual performance to reporting and analyzing performance to making a new program has to be closed to make PPBS effective.

Robert Anthony who replaced Charles Hitch as DOD Comptroller said:

The lesson from this experience is that it is relatively easy to install a modern programming system and a program budget. This is largely a headquarters operation, involving relatively few people. It is tremendously more difficult to install the accounting system that provides the essential back-up for program and budgeting, for this involves people at all levels in the organization, training and selling of both managers and accountants, and a hundred times as much detailed systems design.⁵⁸

Furthermore, even if the structural aspects were tackled ahead of the information aspects, DOD at that time had not gone beyond systems analysis within a program such as the systematic choice of an airbase. Not a single attempt had been made to incorporate more than one program within a single analytic study.⁵⁹ At that time, systems analysts working on individual

⁵⁷ "Interview with DOD Comptroller," op. cit., p. 4.

⁵⁸ Robert Anthony, "Accrual Accounting May Be Coming," The Federal Accountant, June 1975, p. 5.

⁵⁹ See Frederick C. Thayer, "Productivity: Taylorism Revisited (Round Three)," Public Administration Review, November/December 1972, p. 834.

programs worked in relative isolation from each other. They had not transferred their experiences to civilian departments where the overlapping and multiplicity of program objectives were common.

4. Timing of the Reform

While the comprehensive scope of implementation was in keeping with the impetus provided by space successes, Great Society programs, and the Vietnam war rolled into one giant undertaking, they were also relevant to the timing of the reform. These programs created huge increases in government activities and expenditures. On one hand, systematic analysis is more adoptable to new activities. On the other hand, further delay on PPBS application will radically increase the magnitude of old activities budgeted in the old manner.

In authoritarian set-ups, zero-budgeting, that is considering all programs from zero and not recognizing repeat activities, is relatively easier. In democratic set-ups, existing entitlements and authorizations once established assume the status of a vested interest that has a useful political clout. Some programs in the U. S. Department of Health, Education, and Welfare have more than 12 authorizations or sources of funds aside from the annual budget. In R. P., at the time martial law was declared, there were more than 300 continuing appropriations on which authority funds may be released aside from the annual budget. Thus, the urgency of subjecting at least the new activities to PPBS, justified the timing of the implementation.

Unfortunately, however, the war accelerated in Southeast Asia from 1965 onwards. Its financial demands made a shambles of priority systems. The identification of PPBS with what was sometimes called the most measured war and its results affected its understanding and compliance. The inadequacy of PPBS to a hot war situation was actually foreseen by its major proponents as far back as the early 1960's. On a lesser scale, all developing countries are in a crises of this nature, where preoccupation with current problems drive away the long-range outlook.

At any rate, the historicism of a political leader will not allow the opportunity to initiate "the greatest management revolution in government" to slip away. President Harding, as mentioned earlier, described the Budget and Accounting Act of 1921 as "the greatest reformation in government since the beginning of the republic."

B. RESULTS OF IMPLEMENTATION

The initial results of the foregoing strategy can be gleaned from a chronology of presidential actions prior to PPBS target fiscal year, FY 1968. In November 1966, the President issued another memorandum persuading the department heads to make "hard choices" and indicating that the Budget Director would report to him quarterly on the progress of PPBS. In January 1967, the budget message to the Congress stated that the full effects of PPBS will not be felt until later. The last presidential message on PPBS was on March 17, 1967, entitled, "The Quality of American Government" which

said in the last paragraph: "The system has taken roots throughout the government but it will not be able to function fully until more trained men and women, more data, better cost accounting, and new methods of evaluation are available."⁶⁰

The foregoing evaluation can also be interpreted as a revision of earlier objectives of PPBS or a realization that the expected results are forthcoming only in the long run.

Why was it then discontinued on June 21, 1971, at the Bureau of Budget by the simple mechanics of not mentioning PPBS in Circular A-11, the annual ritual for the preparation of agency budget requests?

There were numerous analyses, mostly theoretical and anecdotal, done during and after PPBS at the Federal government.⁶¹ There were two empirical studies done on the difficulties and pitfalls in the implementation of the system.⁶² The first one was conducted by Bureau of Budget on the use of PPBS in 16 Federal agencies in mid-1968. The second, also with the permission of Bureau of Budget, was a survey to examine the

⁶⁰ U. S. Congress, Senate Committee on Government Operations, Planning-Programming-Budgeting, Official Documents, 1967.

⁶¹ The most notable are "Four Years of PPBS: An Appraisal," Stanley Botner, Public Administration Review, July/August 1970, pp. 423-431; John Dawson, "PPBS: Yesterday, Today, and Tomorrow," Armed Forces Comptroller, Summer 1972, pp. 15-23; and Allen Schick, "A Death in the Bureaucracy: The Demise of Federal PPB," Public Administration Review, March/April 1973, pp. 146-156.

⁶² See E. L. Harper, F. A. Kramer, and A. M. Rouse, "Implementation and Use of PPB in Sixteen Federal Agencies," PAR, December 1969, pp. 623-634; and B. H. DeWoolfson, "Federal PPB: A Ten Year Perspective," The Federal Accountant, September 1975, pp. 52-61.

pitfalls in installing and operating PPB systems and what it may have done to help decision-making in public organizations. The dominant findings were that the difficulties encountered by PPBS can be attributed mostly to the nature of planning in America and the implementing strategy. The latter includes difficulty in the use of systems analysis since there were no adequate preparation, training, and data. But the structures and analytical tools of PPBS were considered sound to the extent that the state-of-the-art allows.

A simple first answer to why it was discontinued at the Executive level was that it was not an administrative reform mandated by the Congress. Otherwise, it should have survived a change in political administration and the legislative debates would have provided necessary time to condition the bureaucracy and set the machinery at the primary reform agency - Bureau of Budget. This is, of course, on the assumption that PPBS or some form of it would pass the Congress.

The relevance, however, of Congressional non-involvement in PPBS was more on the divisive effects it wielded on the executive departments who rely upon the Congress for the funding of their respective clientele that they share somehow with divided groups and powers in the legislature. An executive budget is a synthesis of department proposals in contrast with particularization in a congressional budget. When the former is in the form of a program budget but approved by the Congress in the traditional and performance form, then the executive departments would think more in terms of how resources are obtained. It has been earlier mentioned during the transition

to a executive budget that departments were described as natural enemies of the President. In this manner bypassing of the Congress actually reenforced tendencies of individual agencies to avoid presidential overview.

This deduction was impliedly confirmed by a major finding of a Bureau of Budget study in mid-1968 on the implementation of PPBS: "...the close relationship between the relative success in implementing PPBS and perceiving the system as largely for agency use."⁶³ This perception was not due to an educated awareness that available tools were not suitable for interagency program analysis; hence, Bureau of Budget must only exercise technical leadership. The motivation was control and power, hence, the confusion in the ambiguity of President Johnson's original statement on PPBS: that PPBS would "improve our ability to control programs and our budgets rather than having them control us."⁶⁴ Whether control pertains to Bureau of Budget control over the departments or including the Cabinet members over their respective bureaus was never satisfactorily clarified.

This uncertainty also existed within the Bureau of Budget. A dichotomy of interest may be gleaned from its later designation: Office of Management and Budget. The management group

⁶³ E. L. Harper, "Implementation of PPB in Sixteen Federal Agencies," PAR, December 1969, p. 628.

⁶⁴ See "Statement by the President to Members of the Cabinet and Heads of Agencies," August 25, 1965, DRMEC Handout IX-10.

would naturally lean towards building up PPBS capability for agency use while the budget group would want to use the agency's PPBS outputs to rationalize budget allocation. This deduction is influenced by my experience with the R. P. Commission of Budget wherein the Budget Operations Division had strong centralizing tendencies while the Management Division had the opposite.

The budget group, in turn, was divided between a small PPBS staff, which at the peak did not reach more than 12 analysts, and the old and powerful budget review staffs.⁶⁵ The newcomers in the PPBS staff were isolated by a situation where the old staff members did not understand the new methods. Even PPBS instructions were contained in separate bulletins away from the regular Circular A-11 until 1968. By this time, the submission by the agencies of PM's and PFP's was a paper mill, some of which were reported unsigned signifying that the document was an output of the department's analytic staff and not of the bureau or department head. The subsequent amendment of implementing instructions and the identification by Bureau of Budget of selected program issues to be subjected to special studies did not considerably lessen the volume of documents. The reason was that the old budget review staffs who had closer relations with the Congress in the legislation of the executive budget used the program papers to satisfy congressional curiosity in a new budget system that they cannot understand.

⁶⁵ Schick, op. cit., p. 149.

The effectiveness of Bureau of Budget (BOB) leadership and guidance can be appreciated in the light of its increased responsibilities and changes in its nature. The huge increases in Federal activities and expenditures resulted in growing interrelationships between programs and agencies, Federal, state, and local. The required shift in emphasis from budget review and preparation to program planning and evaluation was a change in style in making decisions and making different decisions as well. At the same time, the shift in orientation increased the information requirements at Bureau of Budget level on the three budgetary classifications - traditional, performance, and program. The elaborate details associated with object classification were due to: first, the incomplete decentralization of accounting responsibilities; second, the lack of adequate aggregation of those activities at the Bureau of Budget level; and third, the demands of the congressional appropriations committee for traditional data. While the increasing size and complexity of the bureaucracy, justified improved systems and procedures, the very proliferation of organizational units, steering groups, ad hoc committees, and coordinating committees provided the first obstacles to systems operations.

The internal demands were aggravated also by external demands. There was the so-called increasing presidential orientation of the Budget Director, a phenomenon familiar in R. P. An indicator of these external activities were the number of congressional hearings and coordinating conferences, not including cocktail and golf appointments.

Because of difficulties encountered, Bureau of Budget created an Office of Executive Management to develop solutions to management problems created by increasingly complex and interrelated programs. The priorities for attention were made to shift from individual agencies to the growing number of programs where agencies overlap and on systems for managing such programs.⁶⁶ The Program Evaluation Staff was upgraded to an Office of Program Evaluation which later was able to identify 85 policy issues for FY 1971 planning and budgeting cycle. An issue qualified as a major one if it had a budgetary impact of \$50 M in 1971 or \$500 M in the next five years.⁶⁷ Yet, in 1971, PPBS was discontinued.

What made the problems was that developmental pains were already there when PPBS arrived. The analysis by Allen Schick in this regard⁶⁸ is: The Budget Bureau had already slipped in prominence and capability, lost the lead in program development to other offices in the White House, and no longer was giving guidance to administrative management. Computerization of information systems lagged behind the departments and the traditional lines of communications became outmoded as the programs became more interdepartmental and intergovernmental.

The main reason was the increase in government activities with which the Budget Bureau, given its control orientation,

⁶⁶ Botner, op. cit., p. 428.

⁶⁷ Botner, p. 249.

⁶⁸ Schick, op. cit., p. 150.

was unable to adjust and exercise control. A similar decline in the R. P. Budget Commission resulted in the proliferation of economic staffs in the Office of the President until they were integrated into one office recently.⁶⁹

In 1967, a presidential task force on Government Organization recommended that program management be strengthened at the top levels with the Budget Bureau to have the lead role in policy analysis, in line with PPBS concepts. This recommendation was a validation of early program advocates who stated that program budgeting must be preceded by some basic organizational changes. President Johnson instead continued with programmatic solutions by means of coordinating devices such as interagency committees, task forces, and lead authorities.⁷⁰

In 1969, President Nixon pursued a revamp of the Executive Office fashioned by another advisory council on Executive Reorganization (Ash Council). The Domestic Council was established as a new Executive Office and the Budget Bureau was transformed into the Office of Management and Budget. In contrast with the preceding Heineman task force, the Domestic Council was given the responsibility for program development and OMB the job of coordinating Federal programs. As a compromise in favor of government decentralization, the

⁶⁹With the exception of the Development Management Staff.

⁷⁰Schick, op. cit., p. 151.

executive departments were given representation in the Domestic Council.

Meanwhile, the National Security Council machinery was revitalized and strengthened. National Security Study Memorandum (NSSM) and National Security Decision Memoranda (NSDM) which were analytical documents prepared by NSC started to appear involving the efforts of former defense analysts. While civilian PPBS was allowed to decay, DOD PPBS entered a new phase.⁷¹ With NSC policy guidance, DOD was unable to provide fiscal ceilings to a system that was running \$20 billion to \$25 billion annual gap between the approved annual portion of the Five-Year Defense Program and what was considered feasible by the President for submission to the Congress. In addition, the PPBS cycle was advanced by four months to take care of decentralized decision-making in the armed services.

In the civilian departments, President Nixon proposed the abolition of seven domestic departments, retaining two staff departments, Justice and Treasury, and the creation of four new departments organized around four major systems: spatial, social, environmental, and economic.⁷² A government-wide program structure would not have looked very different from the proposed reorganization. In DOD, the objectives sought in earlier reorganization attempts were accomplished by cross-

⁷¹ Dawson, op. cit., p. 20.

⁷² Schick, op. cit., p. 152.

cutting decisions of its Secretary by means of a mission-oriented program budget. In the civilian departments, that was not possible to be exercised by the Budget Director, since short of the President until the creation of the Domestic Council, no one had full authority over domestic programs.⁷³ While the proposal to organize the executive branch was not realized, it was nevertheless an attempt to enable the departments to organize according to objectives before they can budget according to objectives. As a result, there were three movements in the Executive leading to the decay of PPBS at Budget Bureau level: first, the elevation of major policy analysis to councils above the Budget Bureau with machineries of their own; second, the downgrading of Bureau of Budget to management and performance budgeting while retaining a technical capability for supervision of department PPBS; and third, increased participation of departments and bureaus in program decision-making, representation in the Domestic Council, and an equivalent participation of military departments at DOD.

The trend towards elevating policy and analysis to higher levels in the executive branch had a parallel development in the Congress. It was an irony that while the Congress was not purposely involved in the implementation of PPBS, it began to take interest when PPBS started to flounder in the executive branch. In 1970, a Legislative Reorganization Act was enacted. This Act mandated five-year cost estimates for new

⁷³ Schick, op. cit., p. 153.

programs and directed GAO "to review and analyze the results of government programs and activities carried on under existing law, including the making of cost-benefit studies," and authorized the recruitment of persons "who are experts in analyzing and conducting cost-benefit studies of government programs."⁷⁴ Then, in 1974, a Congressional Budget and Impoundment Act, which created among other things a Congressional Budget Office (CBO). This office is headed by a former Program Evaluation Chief in the Department of Health, Education and Welfare.

Remaining unanswered were the basic questions proposed by Bureau of Budget to a management consultant firm, McKinsey and Co., which was engaged to conduct an "integrated system development effort" in mid-1967 after PPBS was already announced:⁷⁵

1. How should the Executive Branch strengthen its planning, evaluating, and decision-making processes, particularly within the Executive Office of the President?
2. What common denominator can be used to provide the information necessary to conduct the multiple perspective reviews of the Bureau of Budget and yet obviate the present necessity for preparing what in effect are two separate budgets?
3. Will it be necessary to develop a government-wide program structure to resolve this "crosswalk" problem?

⁷⁴ Schick, op. cit., p. 154.

⁷⁵ Botner, op. cit., p. 429.

4. How elaborate and what should be the substantive content of an improved information system to support the recommended changes which result from the resolution of these questions?

C. PPBS EXPERIENCES IN OTHER COUNTRIES

In commenting on the early proposals for PPBS in the U.S., Wildavsky stated that in the guise of procedural change what was actually being proposed is: "a revolutionary move which would mean the virtual introduction of the British Parliamentary System if it is successful."⁷⁶ All the other countries that adopted PPBS or a modified version of the system have a parliamentary form of government. Because of the U.S. experience, their implementing strategies were generally what was described as a slow, feasibility-testing approach.⁷⁷ But the common obstacles were inadequate analytical capability and bureaucratic inertia rather than political environment. The political structures are such that: first, the Parliament's influence on the pattern of public expenditures is exercised in various indirect ways at the formative stage of determining the pattern such that when the ruling party lay down the budget before Parliament it is virtually unknown for it to amend the budget; and, second, not only does central government provide grants to local governments but has direct controls on them.⁷⁸

⁷⁶ A. Wildavsky, "Political Implications of Budget Reform," in F. Rourke, ed., Bureaucratic Power in National Politics, Toronto: Little, Brown, 1965, p. 146.

⁷⁷ Novick, op. cit., p. 31.

⁷⁸ In the recent case of Australia, Parliament refused to

1. Canada

The scope of implementation covered all the departments simultaneously but the speed of reform was so phased that the structural aspects of PPBS had priority over analytical aspects. PPBS was initiated by insiders in the government, specifically, the Treasury Board secretariat, which was able to convince both the politicians and bureaucrats of the need for PPBS and the manner of its implementation. Canada has not had a reform of its traditional budget for the last 50 years. In 1966, the year of PPBS introduction, there was impetus for reform provided by the reorganization of the public service as a result of the findings of the Glassco Commission.⁷⁹ The election of Trudeau as Prime Minister also provided a new approach to policy-making characterized as rationalist in orientation.⁸⁰

The concentration on program structuring enabled Treasury to present before Parliament a program budget by FY 1970 replacing the old traditional budget. In addition, five-year expenditure plans were accomplished for all departments in what was conceived to be programs with cost breakdowns of homogeneous activities and tentative measures of effectiveness.

⁷⁸ pass the budget leading to the downfall of Whitlam's government.

⁷⁹ It is the Royal Commission on Government Organization which rendered its report in 1960.

⁸⁰ G. B. Doern, "Mr. Trudeau, The Science Council, and PPB: Recent Changes in the Philosophy of Policy-Making in Canada,"

The preceding reorganization of the public service minimized overlapping of activities between departments. As a result the Treasury did not have much difficulty in designing a government-wide program structure because there were fewer activities from different departments belonging to the same functional program.

In the analysis aspect, three levels of analysis were created: policy, program, and project. This Canadian version of structuring analysis was in recognition of its political and administrative structure and the limitations of its analytical capability. They recognized that policy analysis involved multiple goals that belong to the level of the Prime Minister and the coordinating committees in Parliament such as the Planning and Priorities Committee (PPC). The technical staff involved are the Privy Council Office (PCO), mentioned earlier, and the Prime Minister's Office (PMO). Program analysis dealt with two or three related goals and was the proper domain of the Treasury Board secretariat and the departments. There are also minor programs that have single objectives. The Canadians renamed these programs as projects and assigned them to departments concerned with the assistance of the TB secretariat. These projects correspond to the performance projects in the U. S. budget system. Success in the analysis of these projects was attributed to PPBS in the Canadian system.

While the program presentation was still a novelty to Parliament and the cautious approach to program analysis maintained the cooperation of the departments, the TB

secretariat pursued the build-up of analytical capability in a notably systematic manner. Earlier its enthusiasm was interpreted as an attempt on the part of one department to increase its status and power in the Canadian public service. Be that as it may, it did not create the animosity that newcomers grafted into an existing bureaucracy commonly do. In the latest manual it published in 1975, Operational Performance Measurement System (OPMS), was the following:

Until very recently, the implied rationale supporting the demands by departments for increased program expenditures seemed to be simply: the richer a program becomes, the more effective it will be. Unfortunately, the introduction of PPBS did not change this attitude. The problem is that the allocation of funds by program and activity does not provide the basis for satisfactory evaluation of program performance or expenditure proposals. The missing link is the specification of outs and the identification of the costs associated with their production. The form and processes of PPBS have been in place for some time; but too often the analytical content is still conspicuously absent.

OPMS was actually preceded by a series of technical instructions that will serve as a gauge of the involvement of the TB secretariat in the evolution of PPBS and the amount of effort that is necessary for a reform of this nature:

1. Publication of Financial Management Guide including highlights of PPBS. 1966.
2. General introduction of PPBS throughout departments, requiring the classification of expenditure proposals according to programs and activities. This involves a comprehensive review of the existing expenditure coding system.
3. Publication of PPBS Guide which explains in some detail the processes and concepts involved.

4. Publication and regular maintenance of the Program Forecast and Estimates Manual which describes the form that expenditure proposals to Treasury Board must take.
5. Development of a Benefit-Cost Analysis Manual to assist departments in the evaluation of proposed expenditure programs or projects. 1973.
6. Promotion by Treasury Board of the MBO process.
7. Publication of a Policy and Guide on Financial Administration which replaces the Financial Management Guide and which emphasizes the importance of cost identification and which recommends techniques for this purpose.

2. United Kingdom

PPBS in Britain was preceded by the establishment of a Public-Expenditure Survey System (PESS) as a result of the Plowden report published in 1961. A major recommendation was: "Decisions involving substantial future expenditures should always be taken in the light of public expenditure as a whole, over a period of years, and in relation to the prospective resources."⁸¹ Two features of the system are worth noting: first, it covers all expenditures by both local and central government, thereby cancelling out the transfer payments between them. Second, the figures when presented to the ministers are organized into broad functional programs, for instance, defense, transport, housing, and law and order.

In 1970, a White Paper on the Reorganization of the Central Government was issued. A Central Policy Review Staff (CPRS) was created for the Cabinet Office and a Programme

⁸¹Novick, op. cit., p. 89.

Analysis and Review (PAR) was designed. With the foregoing, the spadework for the adoption of U. S. PPBS has been done.

However, the British had a much less comprehensive strategy on PPBS. They started with the Ministry of Defense by consolidating the analytical staffs previously dispersed in the three military services into a Defense Operational Analysis Establishment. In the civil departments, they did not implement PPBS in either a single department or across the board. Instead, a number of feasibility studies were conducted in two selected departments to determine whether and how PPBS could be used. One of the departments was the Home Office which has the Police Forces organized like the National Police Forces of the Philippines. The strategy was further refined to be able to concentrate from the bottom-up, starting with local police authorities and subsequently aggregating to provide a system at the national level.

The rationale for this approach is to provide managers at the various levels in the policy system with better information on the resources they control, "bearing in mind both the cost of producing the information and the dangers in quantification which can only too easily be concealed."⁸² The program structure was fitted to the organizational structure of the force and is reproduced here to serve as a guide for the R.P. police forces:⁸³

⁸² Ibid, p. 93.

⁸³ Ibid, p. 94.

1. Operational

Ground Cover
Crime Investigation and Control
Traffic Control
Additional Services

2. Support

Management
Training
Support Services

3. Overheads

Pension
Accommodation

Beyond the feasibility studies, almost all the effort has gone into the development of the information base, mainly on the cost side. It is their view that output budgeting in its early years will naturally concentrate on the construction and discussion of the program budget, since in many areas of activity, the measurement of final output presents formidable conceptual and practical difficulties.

3. Other Smaller Countries⁸⁴

Australia had conducted PPBS pilot studies in the areas of education, health and transport. The Linz School of Social Sciences and the University of Vienna have been commissioned by the government to develop analytical capability in the public service.

Belgium has started in the areas of health and agriculture and has also commissioned the Institute Administrate Universete to provide training. It has also a control problem

⁸⁴ Ibid, pp. 111-129.

between funds allocated to capital investments, funded from loans, and operating expenses, funded from taxes.

New Zealand started PPBS with priority to the accounting base in the Defense Department.

The Scandinavian countries, particularly Norway and Sweden, have already sophisticated capital budgeting in relation to operational expenditures when PPBS was adopted in their respective Defense Ministries.

V. PPBS USES IN R.P.

A central issue in PPBS is the definition of the ultimate objectives of government as they are realized through operational decisions. In this framework, the designation of a program structure is a way of building a bridge between what is government for and the administrative function of assigning scarce resources among alternative objectives. In many areas no clear objectives have ever been laid down. This is true even in countries far more advanced than the Philippines.

While a program structure offers a better organization of objectives that will make visible the direction a government is going, the state-of-the-art of analytical tools used in PPBS has been found inadequate to cope with problems of public policy choice. Systems analysis, by itself, or as a part of PPBS, is mainly an economic approach to public decision-making. This approach views every decision as an allocation of resources, that is, an economic problem. Because it cannot deal adequately with many critical elements of public policy choice, one must be forewarned of its important weaknesses in this area of analysis:⁸⁵

1. Strong attachment to quantification and dependence upon it, including both the need for quantitative models and for quantitative parameters for the variables appearing in the models.

⁸⁵ See YEHEZKEL DROR, "Policy Analysts: A New Professional Role in Government Service," Public Administration Review, September 1967, p. 198.

2. Incapacity to deal with conflicting non-commensurate values other than through neutralizing the issue when possible by seeking out value-insensitive alternatives.

3. Requirement of clear-cut criteria of decision and well-defined missions.

4. Neglect of the problems of political feasibility and of the special characteristics of political resources (such as the power-producing effect of using political power).

5. Lack of rational treatment of essential extra-rational decision elements, such as creativity, tacit knowledge, and judgment.

6. Inability to deal with large and complex systems other than through sub-optimization.

7. Lack of instruments for taking into account individual motivations, irrational behaviour, and human idiosyncracy.

The caveat is even more useful for the reason that the invasion of public decision-making by economics is unavoidable because it is "the only highly developed theoretical basis for improvement in highly critical decision-making processes."⁸⁶ This has as much relevance in developing countries where the main task is economic development regardless of recent slogans that such goal is but one of the grand abstractions from the West. One has only to look at the composition of the Cabinet of the R.P. government, which formerly was dominated by lawyers. In this light, the economic approach in systems analysis and PPBS contributes to the improvement of public decision-making for as long as its limitations are appreciated.

PPBS, therefore, cannot adequately cope with the problem of effectiveness criteria for deciding between alternatives

⁸⁶ *Ibid*, p. 198.

of social systems, especially in a situation of rapidly changing goals and values. Nor is it the answer to the goals of so-called welfare economists who have been seeking a formula by which as many people as possible may be better off without hurting anyone.⁸⁷ This perspective of PPBS is being stressed not because those who designed PPBS were ignorant of its limitations, but because in the process of selling a reform, limitations are often overlooked, resulting in a boomerang effect that jeopardizes even its strong and useful points.

A. PPBS AND R.P. GOVERNMENT REORGANIZATION

Among the ten major reforms instituted subsequent to the proclamation of martial law is government reorganization with particular emphasis on development management.⁸⁸ It was the first presidential decree which is significant in the sense that the reorganization plan has long been proposed, debated, and amended in the defunct Congress, hence, its availability for immediate promulgation, even in an emasculated form. As mentioned in the introduction, one of its major objectives is to enable departments to plan and implement programs in their substantive fields with greater economy, efficiency and effectiveness. A planning staff has been established in each department with three complementary divisions: Planning and

⁸⁷ See James S. Coleman, "The Possibility of a Social Welfare Function," The American Economic Review, 1966, pp. 1105-22.

⁸⁸ Four-Year Development Plan, FY 1974-77, Condensed Report, Republic of the Philippines, Manila, 1973.

Programming, Project Development and Evaluation, and Research and Statistics. A financial staff was created to integrate existing budgeting, accounting, financial reporting, internal auditing, and management improvement.

In addition to standardization of department staffs for planning, programming, and budgeting, a coordinated development of plans at national, regional, and local levels has been provided by a creation of a central planning agency and a department of local government and community development. Line departments have also been reorganized to ensure a more meaningful focus on specific programs, for instance, a Department of Tourism. On the other hand, many departments handling related programs were integrated.

A reorganization of this nature has not only provided an impetus for budget reforms in other countries discussed earlier, but has also simplified at least the program structuring of PPBS. The more organizations are suited to the plans and programs of government, the more congruent it will be to a program structure. Program structuring, in turn, will further point out organizational overlapping or duplication and whatever organizational units are unrelated or irrelevant to the goals of government. The interaction, however, cannot go on indefinitely because reorganization does not happen easily and complete rationalization of government structure generally cannot be accomplished. Similarly, there is no program structure made in heaven that is clear-cut and unambiguous that can be blessed as being a complete statement of the objectives of society and government. For example,

the military services will always have hospitals of their own and a traffic cop will at one time or another serve as an educator.

The value, however, of PPBS is not in what it can do to improve the reorganization but in the structures and techniques it provides for the rationalizing of development plans for which the reorganization was done in the first place.

B. PPBS AND FISCAL CONTROL

On September 21, 1975, the R.P. President accepted the resignation of the heads of GAO and Budget Commission.⁸⁹ One of the major problems was the increasing red tape in government financial transactions which aggravated rather than improved fiscal control. While replacements normally initiate changes, the key concern is how fiscal control can be improved by means other than more control.

As discussed on budget reforms before PPBS, fiscal accountability is the key word and expenditure control is the dominant activity of the traditional budget. R.P. government can still be said to be in the traditional stage of budgeting even if in form it has moved in certain areas to the performance stage. Characteristic of this budget orientation is the accumulation of labyrinthine rules and regulations to take care of accounting and auditing controls of units in the field by central agencies, and, as an effect or cause, the

⁸⁹ See "Top Level Government Revamp in Manila," Monterey Peninsula Herald, September 21, 1975.

accumulation of expertise in that area at the sacrifice of general management by finance personnel. Under this condition, those who know the ropes can ingeniously take advantage leading to more controls that cannot be physically enforced.

The evolution of PPBS revealed that budgeting moved away from a control orientation only partially because there were improvements in honesty and legality in the use of government funds. While PPBS is pushed as an improvement in fiscal control, it can also pull such control to a more solid basis. First, PPBS calls for bigger decisions at the top. With no Congress to demand bits and pieces of budgetary data, central executive agencies will be able to concentrate on policy matters that are of consequence to national development. Management by exception is not only promoted by PPBS but is a prerequisite to its implementation. Otherwise, a paper mill will result out of the increase of information and budgeting documents required by the system. Accordingly, in the accounting area, the long delayed implementation of the principle of decentralization of accounting responsibility to heads of agencies that accompanied the introduction of performance budgeting in 1957 will have to be realized. In the area of auditing, the principles of auditing that was a vital aspect of U. S. Budget and Accounting Procedures Act of 1950 which was the basis of the R.P. Revised Act of 1954 will have to be incorporated. In this manner, auditors will be principally involved as discussed earlier in evaluating the internal controls of operating departments and developing measures of efficiency and effectiveness of units and programs.

Second, the lack of visibility of program costs alone may help create a tendency in the line to worry primarily about getting a budget and then bust it in almost any manner. The level of expenditures for the current year, more untouchable than the politicians that legislated them, sets the stage for the application of a convenient repeat plus a proportional share formula for the next year's budget. A successful diversion of funds, for example, to a capital acquisition will insure an additional budget for operating expenses for the next year. This behavior is reinforced by assignment of rhetorically determined program targets to government agencies. This practice occasionally becomes necessary for political purposes. With no predetermined relation between program costs and outputs, the fund mobilizer provides a hedge in required resources only to shift some of these resources later to non-target areas resulting in an artificially more efficient accomplishment of program targets. Then, after the budget is allocated, fiscal accountability dominates. There are disbursing officers, accountants, and comptrollers to assume that. The line is not only indifferent. So much effort is being exerted in the acquiring of resources leaving little time for managing its use. This is a veritable magnet for the central agencies to increase paper control on the line and for financial personnel to continue to narrow down administrative interests. Thus, we are back to a vicious circle of more control and more labyrinthine rules and regulations.

C. PPBS AND DEVELOPMENT BUDGET

Because of the influence of Keynesian macro-economics, an earlier invasion of public policy-making by economics, developing nations rely on national income accounts in development planning. Plans revolve around a magic number of such and such annual increase in GNP or a certain decrease in the balance of payments gap. How government programs should contribute to such target increases in GNP and what such increase means in terms of benefits to the people is not discernible. Moves in R.P. for a closer relationship between planning and budgeting are so far in terms of coordination between government agencies and consolidation of national income information with budgetary data. For example, a Gross National Product and Expenditures Account Calendar Year 1971-73 was incorporated in the Budget for Fiscal Year 1973. In addition, the annual budget contains an economic-functional classification of national government expenditures which are the five functional areas discussed in the introduction with government departments and agencies listed under each.

Whatever is the argument against an approach to life based on the principle of using monetary units as the common denominator of what is important, there is now considerable experience in such development planning. Unlike budget reforms, economic plans have been actually and substantially tried out even if most have ended in bitter experiences. Out of this experience in developing nations is the emergence of the Development Budget as a major tool through which the special

requirements of initiating social changes can be met. In pre-martial law R.P., such budget pertained to government programs financed by loans, domestic and foreign, and foreign assistance. On the expenditure side it is closely associated with the concept of capital formation in the national income accounting. Thus, the development budget was involved in the purchasing of goods and services of a durable nature, usually not recurring such as dams, roads, and piers.

Alone that line, such budget has become symbolic as something more relevant to the people than the annual government budget that incorporates it. The latter developed the connotation in wrong places of a document maintained by politicians in alliance with executive departments and administered by bureaucrats. In contrast, the development budget is under the care of so-called technocrats.

In 1973, a Presidential Development Budget Committee was created, composed of the Secretary of Finance, Central Bank Governor, NEDA Chief, and Commissioner of Budget. Its area of interest is still capital budgeting but recently it has moved to consider the budget as a whole. Under paragraph B2 of "Complementary Fiscal Policies and Administrative Reforms" of the R.P. Budget for FY 1973 is the following:

2. Improvements in Budget Presentation and Programming

A. Documentation of budgetary proposals
- We have initiated through the PDBC, improvements in the documentation of budgetary proposals which are designed primarily to reduce time and expense in the budget-making process.

Beginning with FY 1973, the Performance type and Line-Item type of documentation

will be printed almost simultaneously. In FY 1974 and thereafter, both will be incorporated in a single document within the allotted constitutional deadline.

B. The operational cash budget - Through the Presidential Development Budget Committee we have established the cash budget system by which we have been able to plan our disbursements with the available cash. We have succeeded in significantly reducing stop-gap financing and assured cash availability when payment is due.

During my coordination with the committee staff in 1973, the trend to tackle not only the administrative aspects of budgeting but the operating expenditures portion of the budget was clear. The development budget has now included all expenditures recurrent or capital. Not only has it become more convenient for the committee to do so without pork-barrel patronages from politicians but of many bitter experiences in lack of coordination between capital investments and operating expenditures. To this problem, the multi-year perspective of PPBS is very responsive, that is, projecting the future years implications of present budgetary decisions. For example are the many stretches of highways and piers that after a few years are in a state of disrepair because maintenance costs were charged to manana to be able to build more and more. By presenting an input-output-effect analysis of selected programs that can still be mostly capital investments, the development budget can provide a link between the macro-oriented economic planning and whatever micro-budgeting is possible, and planning and budgeting in general. The term development budget can certainly be more symbolic, meaningful, and acceptable than program budget and PPBS and

still serve the same purpose. In Turkey, the only developing country that has instituted PPBS, the capital budget was similarly a concern of a State Planning Organization (SPO) and the operating expenditures on a traditional line-item system was a job of the General Directorate of Budget (GDOB).⁹⁰ The budget reform reclassified both expenditures to a functional and program type improving the coordination between investment and current expenditures of data and analysis for the evaluation of projects by SPO and the determination of current expenditures by GDOB.

D. AN IMPLEMENTING STRATEGY

The aim of this paper is not to determine how PPBS is implemented. Going through a pattern of implementing, however, is a way of summarizing the examination of PPBS and of further appreciating the uses of the system. This paper concludes that the direction of administrative reforms in the R.P. government either leads towards a PPBS-type budget reform or at least makes the adoption of some aspects of the reform easier and inevitable. The reform period may take a decade or more, thus in accordance with the exploratory and feasibility testing

⁹⁰ See Gulay Coskun, "Budget Reform in the Republican Government of Turkey," International Review of Administrative Sciences, 37, 4, 1974, pp. 330-336; and Mustafa Yulug, "Budget Reform in Developing Countries with Special Reference to Turkey," Ankara, 1970. The Turkish reform not only dealt with capital investments but the more difficult area of relating the quality and quantity of government personnel to the future tasks of an agency or program. The reform covers an eight year period, FY 69-77.

approaches in other countries and the lessons of the U. S. PPBS experience.

The watershed for this purpose is the declaration of martial law. Under emergency rule, it has been possible to undertake complementary reforms, which are reorganization, personnel management, and budgeting and accounting. Reorganization is going on which, by no means, has been accomplished by mere issuance of a decree. Government agencies are being overhauled to conform with goals and programs of government. A budget reform alone cannot conceivably achieve this feat which is a prerequisite and objective of such reform. The basic aim of an organization, by theory and experience, is to survive. PPBS alone could not have dented the resistance of the bureaucracy. It turns out that organizational patterns are conforming to the goals of government, thereby allowing, prospectively, more congruence to a program structure. Thus, program structuring, in a preparatory sense, has started and when it is actually done will help fine-tune the reorganization. The experiences of Canada, United Kingdom, and Turkey are examples of this interaction. The proposed reorganization of the U. S. executive departments along major systems of space, social, environment, and economics though unrealized has been attributed to the influence of program structuring.

The reorganization in R.P. also provided for planning and budgeting staffs at the departments, Budget Commission, and at the central planning agency. The manning and training of these staffs are also a prerequisite and objective of budget

reforms. In the area of personnel, the trail is being blazed by many changes in the top levels of the the Civil Service Commission and the shake-up of its middle management. More importantly, the stage was set for the zero-budgeting of political patronage employees in many government programs. This problem has been handled with care for the last three years because of its social costs as perceived by a regime which is aware that social surgery is complicated.

Nevertheless, the manning of analytical staffs is constrained by the supply of analytical skills. Developing nations, however, have too often cringed in inferiority complex before management systems that are actually less complicated than they sound. To pursue this attitude is to be damned to the realm of the impossible in the present condition of admitted mismanagement in the developed countries, themselves. The generalization of lack of skills in developing countries is actually the nonuse of qualified people either because of political and legal restrictions or lack of adequate means of employment. Otherwise, the developed world would not have had the benefit of brain drains. The supply of analysts is inadequate only to the extent of the demand, which has two features: first is in relation to the comprehensiveness of PPBS application and speed of reform desired; and second, the lack of demand for analysis itself by the leadership or management. The latter is a vicious circle that starts with either supply or demand. A strategy, therefore, assumes a gradual but simultaneous attack on both supply and demand.

The planning and budget staffs have actually an initial demand for analysis: the relating of department plans and budget to the national development plan as a primary reorganization objective. In this respect, the departments with manned planning staffs will be made to commence examining and identifying the missions of their respective departments before they can intelligently look at the bigger national picture. This will be done at the technical initiative of the planning staff of the Budget Commission even without the fuss of a PPBS decree. In the process they are expected to find out that there are programs and activities cutting across organizational lines, in spite of the reorganization. At this stage, the decision-maker is provided the benefit of analysis as to whether to proceed with reorganization to closely correspond with the hierarchy of objectives or to bend the program structure a little to take advantage of the pattern of managerial responsibility. The experiences in other countries revealed that it does not pay to indefinitely engage in program structuring since there are many programs and activities that are clear and unambiguous enough for a starter. It is enough at this stage to establish a general inter-relationship since the program structure is yet to face a re-thinking when the outputs are analyzed in terms of the objectives and when an accounting subsystem is designed to accommodate the new demands on information.

The preceding exercise can make the same easier at the level of the Budget Commission in the form of a government-wide program. Working with the Reorganization Commission,

they can marry the government hierarchy of objectives with a program. When the process reaches the level of the central planning agency, the critical programs which have actually been formulated in an ad hoc basis will be visible in their relationship with the departments and bureaus. In addition, reasonably clear-cut programs with fairly narrow target areas can be further identified instead of making another round over the national program structure. A criteria for choosing these programs are:⁹¹

1. Expenditures of a substantial amount of money using a peso threshold.
2. Presence of reasonable and politically viable options now and in the near future.
3. Availability of information or can be inexpensively developed.
4. Presence of a fairly demonstrable relationship between inputs and outputs.

With these selected programs as the priority, accounting subsystems will then be redesigned. The integration of budgeting and accounting subsystems with programming will permit the collection of historical cost information which is not possible except through costly studies. Such information permits increase accuracy in forecasting costs of program changes. A link of planning and performance is thus made possible, for accounting shows what, if anything, happened as a consequence of a planning decision.

The introduction of the accounting aspect in this strategy is borne by the adverse experience in other countries that

⁹¹ See Frederick Mosher, "Limitations and Problems of PPBS in the States," PAR, April 1969, pp. 160-166.

while a program structure can be designed at headquarters, in this instance, the planning staffs, an accounting system involved the line and staff. For example, the redesign of the U. S. government accounting systems to accrual basis is projected to be completed in 1980.

To pursue an accounting change will require the first budget reform-related decree. In essence, this presidential participation is but a correction of the R.P. Revised Budget Act of 1954 which missed a lot of the accounting and auditing aspects of its model - the U. S. Budgeting and Accounting Procedures Act of 1950. This decree will include the creation of a Joint Financial Management Program to be formulated by a committee composed of the Auditor General, Budget Commissioner, National Treasurer, assisted by a permanent secretariat. This body will supervise the design and installation of the accounting subsystems and such other related financial management programs.

While the long process of accounting redesign is being undertaken, the planning and budget staffs resort to "cross-walking" of data from the existing budget to the program budget for a preliminary appreciation of program costs. These are actually being done in some bureaus of the government. On a tentative and perhaps training basis, the outputs of selected programs can then be analyzed in terms of their objectives.

The formidable conceptual and practical difficulties of determining final output will then be confronted. What will

result from this step is the earlier determination of outputs of reorganized departments and bureaus corresponding to the performance budget. When these outputs are congruent with the program outputs, then they satisfy the requirement at this stage. Even so, the outputs that will be determined will pertain to program effects that are usually multi-purpose, hence, intermediate or proxies of nonquantifiable effects.

This inherent difficulty was approached in the Canadian experience by a tri-level systematic analysis: policy, programme, and project. As explained earlier, a project is a programme renamed, which is single goal-oriented; a programme deal with two or three related goals; and matters of policy involving multiple goals. Canada is still in the project level and is in the process of developing operational measurements for the programme level. Thus, following that example, R.P. will only be dealing with what is actually required by an existing law - the Revised Act on performance budgeting, initially. There are many examples of projects where measures of efficiency is relatively clear and where operational tasks can be meaningfully evaluated. In addition to those activities described in the fundamentals of PPBS, there is, for example, the current question of government office space in the Greater Manila area. Each department can forecast its needs for space and then run cost-benefit analysis to see if it would be better to rent or build new offices. In turn, these activities can be coordinated at the Budget Commission level that one department may not be renting two thirds of a floor. Included in this analysis by the Budget Commission

will be indirect costs, that is, such hidden costs to the city for sewer and water extensions which any new office may require and which may not be that important to departmental analysis.

Since the second level of systematic analysis, that is, those programs with still ambiguous outputs, will be awaiting the development of the accounting system and supporting systems for output measurement, zero-budgeting will not be resorted to in these categories. This leads us now to what use PPBS is to policy analysis.

The limitations of PPBS to conduct policy analysis has been presented as a caveat earlier. A rationalist approach to policy-making requires a more multi-disciplinary approach in contrast with a primarily economic approach in systems analysis. Even if the R.P. President has surrounded himself with economists and managers, it is not likely he will fully rely on quantification of issues where he has succeeded by intuition and judgment. On the other hand, he did not declare a martial law to muddle through in the tradition of so-called incrementalists. Expectedly, when faced with two diametrically opposed approaches to policy-making, he will go for the middle ground. Etzioni provided a third form which draws elements from the other two, resulting perhaps in a more workable approach. A rational approach, he said, requires greater resources than decision-makers command. An incremental approach, on the other hand, disregards the possibility of innovations, while a "mixed-scanning approach" involves

rationalist examination of some policy areas and a truncated look at other areas.⁹²

The last aspect of strategy is the timing of the reform. This paper suggests that the target completion of the reform, as a basis for when to start it, be left to the process of implementation itself where PPBS in its interaction with the administrative and political environment has its effective uses. It is also suggested that the reform has long started and that the more formal aspects of the reform should be so started to be a working system at the time the parliament is convened since martial law cannot stay forever to make reforms possible.

⁹²See A. Etzioni, "Mixed-Scanning: A Third Approach to Decision-Making," PAR, 1967, pp. 385-392.

BIBLIOGRAPHY

Public Documents

U. S. Commission on Organization of the Executive Branch of Government. Budget and Accounting: A Report to Congress, 1949.

U. S. Congress. General Accounting Office. Policy and Procedures Manual, Title 7.

U. S. Congress. Senate. Committee on Government Operations. Planning-Programming-Budgeting. Official Documents, 1967.

U. S. Congress. Senate. Committee on Government Operations. Planning-Programming-Budgeting. Selected Comment, 1967.

U. S. Congress. Senate. Committee on Government Operations. Budget Bureau Guidelines, 1967.

R. P. Budget for the Fiscal Year 1973. Manila: Bureau of Printing, 1972.

R. P. Four-Year Development Plan. FY 1974-77. Manila: Bureau of Printing, 1973.

R. P. Revised Appropriations Act of 1954. Manila: Bureau of Printing, 1955.

R. P. Budget Operations Manual. Manila: Bureau of Printing, 1958.

Books

Anthony, Robert N. Planning and Control Systems: A Framework for Analysis. Boston: 1965.

Anthony, R. N.; Dearden, John; and Vancil, Richard. Management Control Systems. Richard D. Irwin, Inc., 1972.

Burkhead, Jesse. Government Budgeting. New York: John Wiley & Sons, Inc., 1959.

Jay, Antony. Management and Machiavelli. New York: Holt, Rinehart and Winston, 1967.

Jones, Manley H. Executive Decision-Making. Homewood, Ill.: Richard D. Irwin, Inc., 1957.

Dror, Yehzekel. "Policy Analysts: A New Professional Role in Government Service." Public Administration Review, September 1967.

Fisher, Gene. "The Role of Cost-Utility Analysis in Program Budgeting." Planning-Programming-Budgeting, ed. by Fremont J. Lyden and Ernest Miller. Chicago: Rand McNally Publishing Co., 1972.

Galnoor, Itzhak, and Gross, Bertram. "The New Systems Budgeting and the Developing Nations." International Social Science Journal, Vol. 21, 1, 1969.

Gross, Bertram M. "The New Systems Budgeting." Public Administration Review, March/April 1969.

Groves, Roderick T. "Administrative Reform and the Politics of Reform: The Case of Venezuela." Public Administration Review, December 1967.

Harper, Edwin L., and Kramer, Fred. "Implementation and Use of PPB in Sixteen Federal Agencies." Public Administration Review, November/December 1969.

Heiman, Grover. "Defense Reverses PPB Process." Armed Forces Management, February 1970.

Held, Virginia. "PPBS Comes to Washington" Politics, Programs, and Budgets, ed. by James Davies, Jr. Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1969.

Hirsch, Werner. "Toward Federal Program Budgeting." Public Administration Review, December 1966.

Hoos, Ida R. "Systems Techniques for Managing Society: A Critique." Public Administration Review, March/April 1973.

Ilchman, Warren F. "Rising Expectations and the Revolution in Development Administration." Public Administration Review, December 1965.

Jernberg, James E. "Information Change and Congressional Behaviour: A Caveat for Reformers." Planning-Programming-Budgeting, ed. by Fremont Lyden and Ernest Miller. Chicago: Rand McNally Publishing Co., 1972.

Jobe, Larry A. "Financial Management in the Federal Government 'Are We Doing Less With More?'". The Federal Accountant, June 1970.

Kopp, Brewster W. "Let Managers Manage." Armed Forces Comptroller, April 1966.

Novick, David. Current Practice in Program Budgeting (PPBS).
New York: Crane, Russack, 1973.

Quade, E. S., and Boucher, W. I. Systems Analysis and Policy Planning: Applications in Defense. Elsevier, New York, 1974.

Schultze, Charles L. The Politics and Economics of Public Spending. Washington, D.C.: The Brookings Institution, 1968.

Simon, Herbert A. Administrative Behaviour: A Study of Decision-Making in Administrative Organizations. New York: The MacMillan Co., 1957.

Articles and Periodicals

Anthony, Robert. "Closing the Loop Between Planning and Performance." Public Administration Review, May/June 1971.

Anthony, Robert. "Accrual Accounting May Be Coming." The Federal Accountant, June 1975.

Black, Guy. "Externalities and Structure in PPB." Public Administration Review, November/December 1971.

Botner, Stanley B. "Four Years of PPBS: An Appraisal." Public Administration Review, July/August 1970.

Capron, William M. "The Impact of Analysis on Bargaining in Government." In Politics, Programs, and Budgets, ed. by James W. Davies, Jr. Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1969.

Chermak, Lawrence E. "Planning, Programming, and Budgeting-Accounting." The Federal Accountant, 1963.

Churchman, C. W., and Schainblatt, A. H. "PPB: How Can It Be Implemented?", Public Administration Review, March/April 1969.

Coskun, Gulay. "Budget Reform in the Republican Government of Turkey." International Review of Administrative Sciences, Vol. 37, 4, 1971.

Dawson, John E. "PPBS: Yesterday, Today, and Tomorrow." Armed Forces Comptroller, Summer 1972.

Dawson, John E. "Origins of the Federal Budget Process." Armed Forces Comptroller, April 1975.

Drew, Elizabeth B. "HEW Grapples with PPBS." Politics, Programs and Budgets, ed. by James W. Davies, Jr. Englewood Cliffs, N. J.: Prentice Hall, Inc., 1969.

Knighton, Lennis M. "Performance Evaluation and the Matching Concept in Governmental Accounting." The Federal Accountant, June 1970.

Lee, Hahn-Been. "An Application of Innovation Theory to the Strategy of Administrative Reform in Developing Countries." Policy Sciences, I, 1970.

McKinney, Jerome B., and Kiely, Edward. "Has Success Spoiled PPB?". The Federal Accountant, 1975.

Morris, Thomas D.; Corbett, William; and Usilaner, Brian. "Productivity Measures in the Federal Government." Public Administration Review, November/December 1972.

Mosher, Frederick C. "Limitations and Problems of PPBS in the States." Public Administration Review, March/April 1969.

Neumann, Rodger W. "Introducing Programme Budgeting in Norway." International Review of Administrative Sciences, Vol. 37, 4, 1971.

Ott, David J., and Ott, Attiat. "The Budget Process." Planning-Programming-Budgeting, ed. by Fremont Lyden and Ernest Miller, Chicago: Rand McNally Publishing Co., 1972.

Peterson, R. E., and Seo, K. K. "Public Administration Planning in Developing Countries: A Bayesian Decision Theory Approach." Policy Sciences, 3, 1972.

Proshan, Arnold. "Programming System in the Department of Defense." Armed Forces Comptroller, 1962.

Pugh, Cedric. "Introduction of a Planning-Programming-Budgeting System." The Australian Accountant, December 1974.

Quade, E. S. "Systems Analysis Techniques for PPB." Planning-Programming-Budgeting, ed. by Fremont Lyden and Ernest Miller. Chicago: Rand McNally Publishing Co., 1972.

Riggs, Fred W. "Relearning An Old Lesson: The Political Context of Development Administration." Public Administration Review, March 1965.

Schick, Allen. "The Road to PPB: The Stages of Budget Reform." Politics, Programs and Budgets, ed. by James Davies, Jr., Englewood Cliffs, N.J.: Prentice Hall, Inc., 1969.

Schick, Allen. "A Death in the Bureaucracy: The Demise of Federal PPB." Public Administration Review, March/April 1973.

Segsworth, R. V. "PPBS and Policy Analysis: The Canadian Experience." International Review of Administrative Sciences, 38, 4, 1972.

Tiller, Carl W. "Accrual Accounting and Budgeting for the Government." The Federal Accountant, 1969.

Trueblood, Robert M. "The Report of the President's Commission on Budget Concepts." The Federal Accountant, 1967.

Weitzel, Frank H. "Comptrollership Trends in the Federal Government." The Federal Accountant, June 1964.

Wildavsky, Aaron. "Rescuing Policy Analysis from PPBS." Public Administration Review, March/April 1969.

Wildavsky, Aaron. "Political Implications of Budgetary Reform." Armed Forces Comptroller, 1963.

Woolfson, Bruce Jr. "Public Sector MBO and PPB: Cross Fertilization in Management Systems." Public Administration Review, July/August 1975.

Woolfson, Bruce Jr. "Federal PPB: A Ten Year Perspective." The Federal Accountant, September 1975.

Yamada, Gordon T. "Improving Management Effectiveness in the Federal Government." Public Administration Review, December 1972.

INITIAL DISTRIBUTION LIST

	Page
1. Defense Documentation Center Cameron Station Alexandria, Virginia 22314	2
2. Library, Code 0212 Naval Postgraduate School Monterey, California 93940	2
3. Department Chairman, Code 55 Department of Operations Research and Administrative Sciences Naval Postgraduate School Monterey, California 93940	2
4. Professor John E. Dawson Department of Operations Research and Administrative Sciences Naval Postgraduate School Monterey, California 93940	1
5. Professor William T. Haga Department of Operations Research and Administrative Sciences Naval Postgraduate School Monterey, California 93940	1
6. Commander Plaridel C. Garcia Quarters 1 Camp Aguinaldo Republic of Philippines	10